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UNITED STATES-CANADA FREE TRADE AGREEMENT

HEARING

BEFORE THE

COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

MAY 9, 1988

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UNITED STATES-CANADA FREE TRADE AGREEMENT

MONDAY, MAY 9, 1988

U.S. Senate,
Committee on Governmental Affairs,
Washington, DC.

The Committee met, pursuant to notice, at 1:50 p.m., in room SD-342, Dirksen Senate Office Building, Hon. John Glenn, Chairman of the Committee, presiding.

Present: Senators Glenn, Levin, and Heinz.

OPENING STATEMENT OF SENATOR LEVIN

Senator **Levin** [presiding]. The hearing will come to order. We will begin. Senator Glenn is on his way, and he suggested that we start without him. I know he will be here shortly.

I want to thank Senator Glenn for scheduling this hearing on this extraordinarily important trade agreement. As one of six Senate Committees with jurisdiction over a portion of the implementing legislation for this agreement, the Governmental Affairs Committee has a special responsibility to examine the agreement carefully and assess its likely impact on the United States.

Canada's chief negotiator for the talks that led to this agreement, Simon Reisman, made a very interesting statement a few days after the agreement was finalized last December. He said, "The trade covered by the items we eventually agreed to are close to three-to-1 in favor of Canada. Our people were way ahead of them in terms of the analysis, the investigation, the facts, the methods, the procedures, the whole business. You would think that the United States was an underdeveloped country alongside us in terms of the way this negotiation went."

Now, we all recognize that this was said as part of an effort to sell the agreement to the Canadian public. And there was, doubtless, an element of hyperbole in these remarks. But looking at how this agreement came out in certain key areas, one cannot help at least question if it really is, as Administration officials have repeatedly characterized it, a "win-win" deal.

During public discussion of the Free Trade Agreement, both supporters and critics usually begin by stating that the United States and Canada have the world's largest bilateral trading relationship, and that we are each other's largest trading partners. I might add that Michigan has more trade with Canada than any other State; in fact, Canada exchanges more goods with Michigan alone than it does with Japan and Great Britain combined.

But this is only a starting point for discussion. These impressive sounding facts tell us nothing about how each country views the trading relationship. Here is a more revealing statistic: Close to 80 percent of Canada's exports go to the United States, while about 24 percent of our exports go to Canada. Clearly, our bilateral trade is a dominant issue for Canadians. The Free Trade Agreement is front-page news in Canada on a regular basis, and it may even be the issue over which the next Canadian election is decided. Here in the United States, we are lucky if we see a brief story on the business page.

My fear is that our country's relative lack of interest in the Free Trade Agreement might have been reflected in the way the negotiations were conducted on our side. It is my understanding that senior U.S. Government policymakers did not become involved until the Canadian negotiators walked out of the talks less than 2 weeks before the deadline for completion of a preliminary agreement. As I look down the long list of Canadian protectionist policies that were not addressed by this agreement, I cannot help but wonder what we were trying to get out of these talks.

How in the name of fairness can we support an agreement which perpetuates one-way protectionism? Where is the fairness in the discriminatory arrangement regarding autos, an arrangement in which the U.S. autos and auto parts entering Canada face high duties unless U.S. companies increase investment in Canada, while the reverse is not true—we let Canadian autos and auto parts come in virtually unrestricted? Where is the fairness when Canada is allowed to retain special deals for its auto parts industry for 7 or more years, special deals that our Trade Representative thinks are illegal and which discriminate against U.S. parts producers? Where is the fairness under this agreement for the U.S. beer industry, for the U.S. printing industry, for the U.S. textile industry, for the U.S. egg and poultry industries?

We must look at what our objectives were in the Free Trade Agreement negotiations and whether certain issues received the priority they deserved. We must look at those areas where the Canadians retain protections for their industries that we do not have and figure out why we let them do it under this agreement. And we must try to address some of these matters through the implementing legislation that Congress must pass before the agreement goes into effect.

There is a great deal of confusion in the United States about whether this agreement is a good or bad deal. The confusion stems from the extensive and complex nature of the United States-Canada trade relationship. We hear on the one hand that the auto companies support the Free Trade Agreement and its automotive provisions, and on the other hand that the U.S. auto parts manufacturers are highly critical of these same provisions. We hear that the national associations representing wheat, corn, and potato growers oppose the Free Trade Agreement, but that the American Farm Bureau supports it. We hear that labor organizations on both sides of the border oppose the agreement, claiming that it will mean job losses in each of their respective countries. Is it possible that they are all right, or do some of them have to be wrong?

We can begin to clarify this muddled picture by asking the right questions. First, there are the economic questions. Does the Free Trade Agreement help or hurt key industries in the States that we represent? Is the net economic effect in our States good or bad? What about the overall effect on the Nation's economy?

These are all legitimate questions for a member of Congress to ask. I do not agree with Ambassador Yeutter's statement to the House Ways and Means Committee a few months ago, which is repeated in Ambassador Holmer's testimony today, that "it would be a terrible mistake to evaluate this agreement on the basis of its impact on particular firms, industries, or even States." I frankly do not see how one can judge this agreement without looking at those elements.

The second set of questions is a little harder to get a handle on. They concern what this agreement means in terms of our trade policy. Does the Free Trade Agreement represent wise trade policy? Are we setting a good or bad precedent for future bilateral or multilateral trade negotiations? Are we establishing a fair and reciprocal trade relationship, or one skewed in favor of the other party?

I have not found the final answers to these questions yet. Some industries in my State will benefit from the tariff elimination element of the Free Trade Agreement. The furniture industry, which is important to my State, will get a boost from the elimination of high Canadian tariffs on furniture. Boat builders in my State will also get improved access to Canadian markets now closed to them because of high tariffs. And there are other similar examples.

But I also have some serious concerns about our failure to get rid of Canadian protections in a number of areas, including autos, beer, vegetables, poultry, printing, and many others. While I would not have expected us to achieve everything on our "wish list" in these negotiations, I am puzzled why we could not do better on those matters.

Finally, I want to address what I call the "better than the status quo" argument. It was succinctly expressed by Deputy Treasury Secretary M. Peter McPherson, whom I understand was very involved in the free trade negotiations. At a conference on the FTA held in January, Mr. McPherson said the following: "The Free Trade Agreement is an improvement over the status quo. The choice is not between the total elimination of objectionable Canadian programs and the status quo. The choice is between the Free Trade Agreement and the status quo."

So an agreement initially described by the President as "historic" and by the Trade Representative as "of comparable historic significance" to the INF Treaty, is now being promoted by the Administration on grounds that it is merely "an improvement over the status quo." But on the whole, this does seem to be a reasonable basis for judging the Free Trade Agreement: Are we better off with it or without it?

The problem with the "status quo" argument is that we are no longer sure what the status quo is! In January, the Canadians announced the introduction of quotas on certain U.S. dairy products. In late March, they announced their intention to institute a duty remission program in the textile and apparel industry that discriminates against U.S. textile producers and gives Canadian apparel makers an unfair competitive advantage. The Canadian Parliament is considering legislation that would prohibit American film distribution companies from distributing films and television programs in Canada. All this despite a "letter of understanding" exchanged by our Government and the Canadian Government in which both parties pledged to "exercise discretion . . . so as not to . . . undermine the spirit and mutual benefits of the Free Trade Agreement."

The Canadians seem to keep changing the rules, and the changes are in their favor. If we do not deal decisively with these actions by the Canadian Government, I do not think we can credibly enter into a comprehensive trade deal with them.

The Free Trade Agreement may not be front-page news in most of the United States, but in my State we cannot afford to ignore it. Our economy depends to a great extent on trade with Canada, and that trade relationship is currently running 2-to-1 in Canada's favor. Michigan needs trade with Canada, but it has to be fair trade.

This agreement might increase trade flows between the two countries, but the really important issue is how that increase will be shared. An increase in our sales to Canada which is more than offset by greater purchases from Canada is not that great of a deal. In other words, we must look at trade fairness—trade balance—and not just gross trade figures. I will be looking at fairness and not just figures as I examine the Free Trade Agreement.

Senator Glenn is not yet here, so I think what we will do is insert his opening statement and the statements of Senators Bingaman, Heinz, and Sasser into the record.

[The prepared statements of Senators Glenn, Bingaman, Heinz, and Sasser follow:]

OPENING STATEMENT OF CHAIRMAN GLENN

Good Afternoon. Today the Committee turns its attention once again to the issue of U.S. international trade policy—an issue that has dominated the 100th Congress from its very beginning. Our work to date in the trade arena has almost exclusively been worrying about and debating ways to improve our trading relations with Japan, Europe, and the Newly Industrialized Countries (NICs). In the meantime, with a country just across this Nation's northern border, our trade relationship has matured to the point where, I believe, we are about to embark on a trading policy whose effects on the U.S. economy will be every bit, if not more, exciting and enduring than those promised by the other initiatives which lie at the center of the current U.S. trade debate.

The U.S.-Canadian Free Trade Agreement (or FTA) which we have before us today has been negotiated by the Administration over the last two and one-half years. It is, in short, a comprehensive plan to pull down most of the existing barriers to trade between our two countries. If the FTA is approved, it will truly be a watershed event in modern economic history. In 1986, the United States and Canada traded goods and services valued in excess of $150 billion—the largest bilateral trading relationship in the world.

The FTA provides an opportunity to enhance our successful partnership. When they signed the FTA in January of this year, President Reagan and Prime Minister Mulroney committed to the elimination of all U.S.-Canadian bilateral tariffs by January 1, 1998; most of the reductions will come before that date. In addition, the FTA addresses many of the non-tariff barriers that distort trade between the U.S. and Canada.

The FTA does not end with these significant commitments. It also contains provisions on trade in services, government procurement, investment, and travel that go beyond the measures thus far contemplated in the multilateral GATT negotiations.

In this sense, the FTA provides a model for future trade liberalization on a world scale under GATT in the Uruguay Round.

There are numerous benefits that the FTA will create. For one, the FTA will benefit consumers. American consumers will experience lower prices for many goods, as Canadian tariffs—on average two times as high as American tariffs—come down. Consumers on both sides of the border will also have access to a wider range of goods, services, and investment opportunities.

The FTA will also make both of our economies more competitive because it will create a larger market for United States and Canadian goods and services. Healthy industries will become more efficient as they realize new economies of scale. Overprotected, "fat" industries in both countries will have to streamline their production or move into businesses in which they are more competitive. The end result will be a reallocation of resources that otherwise were artificially and inefficiently diverted by market distorting trade barriers.

In fact, by being able to take advantage of these economies of scale within a new, North American market, our firms will be better able to compete with firms outside North America and increase exports overseas. Thus the FTA is truly a competitiveness-enhancing trade policy.

By the same token, the creation of a combined market of 265 million people under the FTA will mean greater market leverage for United States and Canadian consumers vis a vis consumers elsewhere—including consumers in the European Economic Community (EEC)—to obtain foreign products at the lowest possible price.

Overall, the increased competitiveness and the other benefits that will be engendered by the FTA are likely to translate into impressive economic gains. The Commerce Department estimates that the Agreement will increase the flow of U.S.-Candian trade by more than $25 billion over the next five years. And, it is generally though that the FTA will lead to an increase in our GNP of about 1 percent, or $45 billion.

While all this leads me to have much hope that the FTA will be a successful enterprise, I do not mean to suggest that United States-Canadian trade has always run smoothly. There have been problems and complaints on both sides. But, for the most part, the United States and Canada have developed a trading relationship that is as strong as the political, cultural, and historical ties that bind our two nations. If we cannot fashion a free trade agreement with Canada, the prospects for success in breaking down trade barriers elsewhere will not be good.

I would be remiss if I did not mention that not all parties are satisfied with the FTA. Some industries and some regions feel that the FTA could expose them to ruinous and perhaps unfair competition from Canada. Others believe that the FTA does not provide enough trade liberalization; still others, that the little gained for the U.S. in the FTA is guaranteed by ill-conceived institutions. I hope we will have a chance to discuss these various positions in more detail with our witnesses today. I should say, however, that in the rush to protect special interests touched on by the FTA, few have evaluated the Agreement from a national perspective. It is that perspective around which I would like to orient this hearing.

Before we begin, I would like to explain my understanding of Congress' role in the deliberations on the FTA. Because it was negotiated under the President's fast-track authority, Congress enters the debate later than is usual on issues of this import. The FTA was initialled in early October 1987, but the text was not released until December 11th. The President signed the Agreement on January 2, 1988.

The next, formal step is for the President to introduce implementing legislation to the Congress. At present, the six Senate Committees of jurisdiction, including this one, are working with the Administration to draft the language. Once presented to Congress, it will be subject to an expedited, "up-or-down" vote.

In short, the fast-track process yields, for the Congress' approval or disapproval, an agreement that is not wholly of our own making. It is instead the result of long and difficult negotiations between our Administration and the Canadian Government.

I believe that it is important to remember this both in our discussions today, and in our future deliberations on the FTA. We have in front of us a "done deal." Perhaps it is not exactly the deal we would have made, but that is not what we are being asked to decide. Our job, under the fast-track procedure, is, again, to judge whether this Agreement is in the nation's best interests—whether, overall, its benefits outweigh its costs.

We have structured today's hearing in a way that, I hope, will help us start to make this kind of assessment. We have asked our witnesses to explore in what ways the FTA will change our existing trade relationship with Canada. Now is not the time to talk about the ideal Agreement that might have been. Now is the time to decide whether we are to have any change at all.

Our first witness is Ambassador Alan F. Holmer, Deputy United States Trade Representative. He will present the FTA for the Administration.

He will be followed by two panels. The first will describe and evaluate the FTA as a whole. On this panel, we are honored to have Mr. William Archey from the U.S. Chamber of Commerce, Mr. William Cunningham from the AFL-CIO, and Professor Paul Wonnacott from the University of Maryland.

Our second panel will discuss the FTA from the perspective of several specific sectors of importance to the members of this Committee. The Honorable Ashley Brown, Commissioner on the Ohio Public Utilities Commission, will comment on the energy sections of the FTA. Mr. Marc Santucci, advisor to Michigan's Governor Blanchard on trade issues, will analyze the auto provisions. Mr. Jim Collins is here to explain the position of the National Steel Producers' Association. And Mr. Dexter Baker will speak for the chemical industry.

It is my hope that we can get some interaction among the panelists in our discussion. In order to provide enough time for this, I will ask each witness to summarize briefly, in no more than 10 minutes, his testimony. I look forward to hearing all of your testimony and discussion.

OPENING STATEMENT OF SENATOR BINGAMAN

I would like to thank the Chairman for scheduling this hearing on the Canadian Free Trade Agreement. The Agreement is one of the most comprehensive agreements the United States has ever signed and covers the world's greatest amount of trade between two nations. The Canadian FTA does more than simply lower or eliminate tariffs, it also attempts to remove many non-tariff barriers (NTBs). It includes provisions on agriculture, wine and distilled spirits, automobiles, cultural industries, changes to customs procedures, energy, government procedurement, investment, and financial services.

Because of the Agreement's breadth, the implementing language must be reviewed carefully by the Congress. Part of my concern results from the manner in which the Agreement was reached. To insure orderly consideration of trade agreements, Congress created a fast track approval procedure. Under the fast track procedure, the President must notify Congress that he intends to enter into an agreement at least 90 days before he signs the agreement. However, authority for the fast track procedure expired on January 3, 1988—in order to qualify the Canadian FTA had to be signed on January 2, 1988. Thus, the President had to inform Congress by October 3, 1987.

If you remember back then, there was much uncertainty whether an agreement would be reached. The Canadians pulled out of the talks. Only late night sessions with Secretary of the Treasury James Baker and U.S. Trade Representative Clayton Yeutter at the last minute produced an agreement.

Frankly, I am concerned that the Congress was not adequately involved in the process and that subsequently the Administration has not been sensitive to the concerns some of us have over the energy and national resource provisions. The "take-it-or-leave-it" approach the Administration has chosen to follow is, I believe, counter-productive.

I have a special interest in this Agreement as it relates to energy and natural resources. I am particularly concerned over the issue of Canadian subsidization of natural resource exports to the United States, especially potash, uranium, and natural gas.

As I understand it, the agreement will not replace current U.S. law on dumping and will not set aside the past ruling on potash dumping. But, the pact will set up a bilateral commission for appeals of anti-dumping rulings rather than appeals to U.S. courts. This panel is to be bound by United States and Canadian trade law, but is a very controversial provision.

With respect to uranium, the Agreement as signed calls for the repeal of section 161(v) of the Atomic Energy Act with respect to the restriction of uranium imports from Canada. Section 161(v) requires the U.S. Government to maintain a viable domestic uranium industry. Earlier, the Senate passed the Uranium Revitalization, Tailings Reclamation and Enrichment Act of 1987, which I cosponsored, to replace section 161(v) with a new procedure for a sliding scale charge for the use of foreign uranium. Since the legislation includes a 12 year phaseout of this charge, Similar to the phase out of tariffs under the Canadian FTA, and implements our commitment to repeal section 161(v), I believe this legislation is consistent with the FTA. I hope the House will act quickly on this bill and the Pesident will sign it—that will eliminate one concern I have over the Agreement.

With respect to natural gas, the primary concentration of Canadian exports go to the California market. New Mexico has been a predominant supplier of natural gas to this market. However, in the past three years, Canadian gas has displaced much of the New Mexico gas. It is clear that this displacement is a result of the Canadians willingness to sell their gas cheaper than our domestic producers are able to. New Mexico producers would suggest that part of this was due to the difference in rate design which the Federal Energy Regulatory Commission's (FERC Order #256) "as billed" decision attempted to address. In earlier hearings before the Energy Committee, both the Administration and the Canadian Ambassador gave their assurances that FERC Order 256 will not be changed nor affected by the Free Trade Agreement. I would hope that the witnesses today from the Administration will reiterate those assurances. I want the legislative history to be clear on this point.

I would like to again thank the Chairman for calling this hearing and look forward the witnesses' testimony.

OPENING STATEMENT OF SENATOR HEINZ

Mr. Chairman, I simply want to indicate at the outset of this hearing that I have not yet taken a final position on the Free Trade Agreement. I hope to be able to support it, as I have supported the other legislation that has come to us under the fast track. My support, however, will likely depend on three things:

(1) the willingness of the Administration to use the fast track process as it was intended—in a truly consultative manner designed to produce the most thoroughly considered implementing legislation.

(2) the determination of the Administration to prevent the trade law dispute settlement mechanism from becoming a device that will erode our soverignty, reduce the credibility of our trade laws and enforcement mechanisms, and further erode market discipline by giving the Canadians a free ride on their subsidies policies.

(3) the commitment of the Administration to a mechanism that will guarantee further progress on eliminating the barriers between our countries that this Agreement grandfathers. The FTA does that with respect to dumping and countervailing duty laws, but does not do it elsewhere. To the extent we have legitimized those continuing barriers, this Agreement makes it harder to eliminate them in the future rather than easier.

These are not unsolvable problems, but they are, in my judgment, critical ones. I look forward to working with Ambassador Yeutter in addressing them.

OPENING STATEMENT OF SENATOR SASSER

I am pleased to be here today with you and other members of the Governmental Affairs Committee to hear from the distinguished participants in this hearing on the pending United States-Canada Free Trade Agreement.

Without question, our nation's trade deficit is a most worrisome concern. Just 12 years ago, the United States Senate passed—by a margin of 63-36—a comprehensive trade bill which deserves to become public law. We need to strengthen our laws against unfair trade practices with all of our trading partners, including Canada.

Clearly, this situation cries out for action. In 1987, the trade deficit totaled $177 billion which was greater than the total of all of the trade surpluses that the United States has accumulated since World War II.

In our efforts to level this playing field, we must also learn to thoroughly and carefully examine all trade agreements which this nation enters. This is especially true of the United States-Canada Free Trade Agreement signed on January 2nd.

Surely, there is no stronger ally of the United States than our neighbor to the North, Canada. We are each other's greatest trading partner. In fact, the United States ships almost as much to Canada as it does to Japan, Britain, West Germany, Italy and France combined.

This mutual Free Trade Agreement, no doubt, has its virtues. For instance, the Pact will signal an end to Canadian tariffs, which now are about twice as high as those of the United States. The pact also establishes, for the first time, rules for trade in service and in the financial sector, and sets limits on how much Canada can restrict foreign investment.

But, we must not overlook the shortcomings of this measure, which—as we will hear today—comes from many sectors of our economy—from the automobile and auto parts industry, the energy industry, farmers, and textile and apparel industry.

Let me provide one example of my concerns about this Free Trade Agreement. Since 1980, the U.S. textile and apparel industry has lost 350,000 jobs due to imports. My own State of Tennessee has been severely affected by this job loss. Over the past seven years, the States has lost 11,600 textile and apparel jobs with more than 2,000 lost in the last year alone.

It is for this reason a few days ago—on April 29—I joined 29 of my distinguished colleagues in a letter to the President expressing our deep concern about a new Canadian program to extend and create additional duty remissions schemes to give Canadian apparel makers duty rebates on textile they import from third countries.

This proposal violates the spirit and the objectives of this pending U.S.-Canada Free Trade Agreement. I urge the President and the United States Trade Representative to continue to insist that Canada eliminate this unfair new subsidy program.

Finally, because the President signed the Free Trade Agreement before Congress had time to suggest substantive changes in its text, I encourage members of this Committee and other Committees with oversight of this Agreement, to carefully examine and explore all aspects of this measure before we offer it our endorsement.

For surely, once enacted into law, it will become a working blueprint for other bilateral free trade agreements that this nation may seek in the future.

Thank you Mr. Chairman.

Senator LEVIN. I think we will begin with you, Ambassador Holmer. You have an opening statement, and then perhaps if Senator Glenn comes, he may want to interrupt your statement with a statement of his own. We will leave that up to him. Why don't you begin while he is on his way?

TESTIMONY OF AMBASSADOR ALAN F. HOLMER, DEPUTY U.S. TRADE REPRESENTATIVE, ACCOMPANIED BY JUDY BELLO, ACTING GENERAL COUNSEL

Ambassador HOLMER. Thank you very much, Mr. Chairman. I am accompanied this morning by Judy Bello, who is our acting general counsel at USTR. I would like, if I could, to submit my written statement for the record,[1] and also to submit for the record a summary of the United States-Canada Free Trade Agreement.[2]

Senator LEVIN. That will be printed in full, and we appreciate that.

Ambassador HOLMER. If I could, let me just walk through the principal provisions in the agreement and indicate why it is that we feel it is such a fine agreement for the United States and why we believe it merits approval by the Congress. And as I do that, I guess I will let you determine for yourself whether or not Simon Reisman was correct in his characterizations. We certainly do not agree with those.

First, with respect to tariffs, Canada now has the highest average tariffs in the industrialized world—9 to 10 percent. United States tariffs average 3 to 4 percent. Under this agreement, as you note, all those tariffs will go to zero across the board, with no exceptions.

U.S. exports, according to some private studies—one by Robert Stern and Drusilla Brown—are expected to expand by $2.6 billion per year. In 1985, there was a $1.3 billion tariff burden on U.S. exports to Canada. That will be eliminated. And as you indicated, Mr. Chairman, in your opening statement, Michigan exporters will benefit from that.

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[1] See p. 57.
[2] See p. 67.

Investment: We did not get everything we wanted, but the United States is certainly one heck of a lot better off under this agreement than before. In the future, for new greenfield investments, there will be no review. For direct takeovers, earlier there was a threshold for Investment Canada review of $5 million in assets. That will be increased to $150 million in assets in constant Canadian dollars. That means that while earlier 7,600 firms were subject to screening, now only 600 will be subject to screening. That is a 92 percent reduction in the screening that will occur with respect to U.S. investment. We believe that is a very positive change. There is also protection that Canada will not go back to the restrictive policies of the 1970's.

The energy chapter of the Agreement is a big plus for the United States, particularly for States in the Midwest like Michigan and Ohio. What we obtained was non-discriminatory access to Canadian energy supplies. Our approach here basically is market-oriented. Cheaper and more secure energy will make U.S. industries more competitive, both in North America and around the world. That helps consumers, not just individuals but also businesses, both in the agricultural and the manufacturing sectors.

We also believe this prevents Canada from reimposing restrictions and discriminatory pricing practices that hurt United States individuals, industries and consumers in the late 1970's and early 1980's. We believe that the energy chapter is a very big benefit for the United States.

Services: With respect to services, both the United States and Canada have relatively open markets now. The agreement locks that in. It is the first time that two major trading partners have negotiated an agreement establishing rules for bilateral trade for services. The rules will cover scores of service sectors, such as construction, telecommunications, computer services, architecture, accounting, tourism, insurance, and engineering.

Agriculture: We did not get everything that we wanted with respect to the agriculture negotiations. For the most part, we concluded that it made sense to push those issues off to the Uruguay Round. But what did we get, Mr. Chairman? We got increases in Canadian poultry and egg quotas. We got an exemption for the United States from the Canadian meat import law. We set conditions for the removal of Canadian import licensing on wheat, barley and oats. We have removed Canadian barriers to U.S. wine and distilled spirit exports. We have a special provision to protect U.S. fruit and vegetable producers if Canadian exports surge. We have eliminated Canadian export subsidies in agricultural trade in the United States, and we have also eliminated cut-rate pricing by the Canadian marketing boards selling agricultural products to the United States.

With respect to Government procurement, an issue over which this Committee has jurisdiction, we expand coverage of the GATT Government Procurement Code in a way that should make U.S. companies eligible for an additional $500 million in Canadian Government procurement. And it will require Canada to create a bid protest procedure.

With respect to autos, an issue that you have raised, Mr. Chairman, we did not get absolutely everything that we would have liked to have achieved with respect to this Agreement. But the Agreement freezes Auto Pact benefits to current participants. It establishes a new, tougher rule of origin that will be put in place based on a 50 percent North American—that is, United States and Canadian—materials and direct cost of processing.

This new rule excludes such items as sales promotion and advertising costs, administrative overhead and profit, which are included in the current 50 percent. We believe this new test assures that the majority of the manufacturing process will take place in North America.

With respect to export-based duty remission on automobiles duty remission involving exports to the United States is terminated immediately. Duty remission involving exports to third countries is terminated by 1998. Production-based duty remission will be terminated no later than 1996, or when existing contracts expire if that is an earlier date. There will be no new recipients of the duty remission programs, and existing programs will not be enhanced or extended.

I think the important point for members of Congress to remember is that if we do not implement the FTA, all of those favorable improvements that we have achieved are gone.

Other improvements beyond those: The agreement paves the way for recognition by Canadian authorities of U.S. testing facilities and bodies. It removes the Canadian embargo on imports of used motor vehicles and aircraft. It removes essentially all existing Canadian discrimination faced by U.S. financial institutions. It facilitates the temporary entry of business persons into Canada. It provides compensation to owners of U.S. television programs for the retransmission of their programs in Canada. It paves the way for the recognition by Canadian authorities of U.S. testing facilities and bodies. It removes the Canadian embargo on imports of used motor vehicles. It establishes a new, tough rule of origin to avoid circumvention.

We have obtained the right to be able to retaliate against Canadian cultural practices without violating the Free Trade Agreement. And Canada is required to eliminate its current requirement that advertising in a Canadian newspaper or magazine be printed or typeset in Canada.

That is a long list, Mr. Chairman. Is it everything that we wanted to achieve? Does it remove every Canadian non-tariff barrier? Well, of course not. I frankly believe that the statements made that you cited by the President and by Ambassador Yeutter and by Secretary McPherson are all accurate and are all consistent.

We believe this is a "win-win" agreement for the United States. We believe it is historic. We believe its historic significance is as great in the economic arena as the arms control agreement is in the national security arena. But we do think and hope that Members of Congress and citizens around the country will take a step back and ask whether this agreement—not whether or not it is perfect, not whether or not it solves all of our bilateral trade disputes, but whether or not this agreement is going to make our country a better and more prosperous place to live a year from now, a decade from now, a century from now.

It is our belief that the answer to that question is a resounding yes, and we hope that you will reach that same conclusion.

That concludes my statement.

Senator LEVIN. Thank you very much, Ambassador Holmer.

Let me start with a question about automobiles. In response to a written question that Senator Riegle submitted at a Senate Finance Committee hearing on March 17th, Ambassador Yeutter commented on the so-called Canadian safeguard under the 1965 Auto Pact.

The Auto Pact allows cars and parts produced in the United States to enter Canada duty free only if they are imported by a qualified Canadian manufacturer. In order to become qualified, the vehicle manufacturer must produce as many units in Canada as they sell there. And they must use at least 60 percent Canadian content in their Canadian production.

My first question is: Does the United States have any similar requirement to that?

Ambassador HOLMER. No, Senator Levin.

Senator LEVIN. And does that requirement remain after this Free Trade Agreement?

Ambassador HOLMER. I believe that is the case, Senator.

Senator LEVIN. Why do we tolerate the Canadians having a restriction on our product that we do not place on theirs?

Ambassador HOLMER. Well, as you know, that is a provision that is included in a so-called Auto Pact between the United States and Canada. It was the judgment of the negotiators that that issue was not going to be able to be successfully negotiated, and we were able to achieve a whole host of improvements that I enumerated in my oral testimony relating to auto trade between the United States and Canada.

Senator LEVIN. I understand that.

Ambassador HOLMER. But we also, as you know, were under strong pressure from the Big 3 manufacturers that they also did not want the Auto Pact to be changed.

Senator LEVIN. But my question is, in terms of your negotiating strategy, this allegedly was a high priority, was it not?

Ambassador HOLMER. That is correct.

Senator LEVIN. And it is clearly a discriminatory feature. I mean, it is a discrimination against American-made cars that does not exist against Canadian-made cars.

Ambassador HOLMER. That is my understanding.

Senator LEVIN. Now, the auto manufacturers make cars in both countries so they do not have a strong bias against this particular provision. The individuals who make the cars in this country——

Ambassador HOLMER. I am advised that it is only the first of the two items that you described that was covered under the Auto Pact. The second, apparently, are private contractual arrangements between parties.

Senator LEVIN. All right. Is the answer any different? Do the Canadians have a restriction on American cars that we do not have on their cars?

Ambassador HOLMER. That is my understanding.

Senator LEVIN. All right. My question is: Why do we tolerate it?

Ambassador HOLMER. Well——

Senator LEVIN. Simply, why do we tolerate it, is my question. Why don't we just simply tell them we are going to have mirror image legislation, or we are going to have the same restriction on your cars that you place on ours? It is a very straightforward question. Why do we tolerate it?

Ambassador HOLMER. In any negotiation, Senator, you attempt to get the best deal you can for the United States. In this instance, we believe that we obtained a great many improvements for U.S. automobile manufacturers, for U.S. auto parts manufacturers, and for workers in those industries.

If there is no Free Trade Agreement, if Congress turns down this agreement, if we had decided to walk away from the table, all of those improvements would have been gone.

Senator LEVIN. Unless we do one thing. Unless we reciprocate. Can you tell me why—is there any way to justify a discrimination provision against American products when we do not have a similar provision against that country's product? Can you give me a moral justification for it?

Ambassador HOLMER. I am not sure if we are talking about morality here or not. There are——

Senator LEVIN. Well, if you cannot give me a moral justification, a practical justification, it seems to me, becomes the issue. And then if you want to look at practicalities, why do we not treat their products the way they treat ours?

Ambassador HOLMER. Well, I will tell you.

Senator LEVIN. That is practicality.

Ambassador HOLMER. Let us take the investment chapter.

Senator LEVIN. No, no. Take the autos. Do not try to move from that. There is a 60 percent content requirement on production in Canada. There is a 1-for-1 production to sales requirement. I want to know why do we not impose similar requirements on other countries' products when they impose requirements on our products. It is a simple, direct question.

If you answer is "That is the best we can do," my question to you is: Why don't we treat their products the way they treat our products? That is my question.

Ambassador HOLMER. Well, in many instances, it is because we conclude that if we were to adopt on a mirror basis exactly what it is that they do, that may very well turn out not to be in U.S. interests. If you want me to go and look——

Senator LEVIN. No, just on this one. How could it not be in our interest? Take a look at the trade between Canada and us. They have a huge surplus, including autos. Now, it is a philosophical and a very practical question at the same time. Can you give me a justification?

The answer is no, you cannot give me a justification. That is okay with me. At least that is a straightforward, honest answer. But we had a high priority to get rid of these safeguards, didn't we? We thought they were not justified, didn't we?

Ambassador HOLMER. Senator Levin, what I am telling you is it is our view that this agreement, when you just look at autos, is better for the United States than what you have with respect to current practices.

Senator LEVIN. Unless we treat their products the same as they treat our products. You are assuming the continuation of a status quo which is discriminatory against American products.

Ambassador HOLMER. Well, but this——

Senator LEVIN. Why do you want to assume that? Why don't you come to the Congress and recommend to the Congress that we treat their products the way they treat our products? Pure and simple. Why don't you come to us and recommend that?

Ambassador HOLMER. Well, because in this agreement and in all agreements I know of that are negotiated by the United States, you do not always go for product-by-product reciprocity. Now, we have——

Senator LEVIN. Can you give me an instance where we discriminate against their products in a way that they do not discriminate against our products?

Ms. BELLO. Section 337, Senator, we have a long list of American practices that, on moral grounds, the Canadians say are inconsistent with our domestic international obligations and tilt the playing field in favor of American products and investment——

Senator LEVIN. Where they do not.

Ms. BELLO [continuing]. Where they do not.

Senator LEVIN. Okay. So——

Ms. BELLO. So we do have a number of practices not in the auto area necessarily, but we have a number of practices where they feel outraged, morally indignant and so forth that we have practices to which they vociferously object.

Ambassador HOLMER. And, Senator, if I could——

Senator LEVIN. And do you agree with them?

Ambassador HOLMER. Well, Senator——

Senator LEVIN. Do you agree with their list?

Ms. BELLO. We are now in the GATT defending Section 337. I think it is fair to characterize the view of a majority of our trading practices that they concur with the Canadians, that we are in the wrong. We are zealously defending our practices under Section 337, and obviously, that is our rule. But in the viewpoint of the Canadians, we have a number of practices that they consider to be violations of law.

Senator LEVIN. You are not representing the Canadians. You are representing the Americans here. And my question of you is: Do you think the Canadian requirement on our autos is an indefensible practice? It seems to me your answer is yes; you tried to get rid of it and you failed. Why don't you just simply say that?

It is an indefensible practice, isn't it?

Ms. BELLO. We oppose that particular Canadian——

Senator LEVIN. Is it not an indefensible practice?

Ms. BELLO. It is a——

Ambassador HOLMER. Senator, this is the——

Senator LEVIN. I know. Do you believe it is an indefensible practice? I know they believe we have some indefensible practices. I understand that. They will take care of themselves. They do it very well.

My question is how well we take care of ourselves. My question is: Is that an indefensible practice, in your opinion, that 60 percent requirement?

Ms. BELLO. The local content requirements are private contractual arrangements.

Senator LEVIN. But don't we recognize them in this Free Trade Agreement, so-called?

Ms. BELLO. No, we do not. They were outside of the Auto Pact, and they are outside of the FTA. Those are private arrangements.

Senator LEVIN. I am just talking about what we recognize in this Free Trade Agreement. Do we recognize any of those arrangements in this agreement?

Ms. BELLO. No, sir. We do not.

Senator LEVIN. Do we perpetuate them?

Ms. BELLO. Those are private contractual arrangements outside——

Senator LEVIN. So there is nothing in this Free Trade Agreement about autos that relates to the Auto Pact.

Ms. BELLO. The Auto Pact is frozen, and that is a substantial improvement over current practice in the Auto Pact. The local content arrangements which you referred to, the 60 percent, are private arrangements outside of the purview of both the Pact and the FTA.

Senator LEVIN. Is the Auto Pact frozen in this Free Trade Agreement?

Ms. BELLO. Yes, it is.

Senator LEVIN. So we do make reference to the Auto Pact?

Ms. BELLO. You make reference to the Auto Pact in Article 1——

Senator LEVIN. That is what I understand. My question to you very simply is: Do you believe that that is discriminatory against American-made cars? And if so, why do we make reference to it and protect it?

Ms. BELLO. It is discriminatory, and it is a choice that private U.S. parties have made that was evidently in their interest. And they have concluded those arrangements independently of any role of the Federal Government.

Senator LEVIN. But this is an agreement between two Governments. It is not just that two private parties agreed to it. We have incorporated the Auto Pact in this agreement; we have frozen it, in your words, right in this agreement. So we have given recognition to that Auto Pact in this agreement.

Ms. BELLO. Well, and in fact, of course, the Auto Pact is already an agreement between the two sovereign Governments.

Senator LEVIN. Okay. So now let us talk about that. Is it defensible, do you believe? Do you believe it is defensible? Can you justify our products being treated worse than their products? That is my question.

Ms. BELLO. Well, you do not just look at one element of even the auto arrangement, Senator Levin. You have to look at the package. And in 1965 when we concluded the Auto Pact with the advice of our industry, we thought it was a good deal for the United States, in large part because the tariffs in Canada were far in excess of the tariffs in the United States, and we get duty-free treatment on both sides of the border. And we think that significantly served the United States national economic interest, yes, sir.

Senator LEVIN. Was it not also represented to the Congress at the time the Auto Pact was entered into that the remaining restrictions on full integration of the industry, as they phrased it, would be removed?

Ambassador **Holmer**. I do not know, Senator. Mrs. Bello and I were in high school at the time.

Senator **Levin**. I was not here at the time either, but I read the record.

Ambassador **Holmer**. I would be happy to look at that and respond.

Senator **Levin**. I think you ought to read the record, because I think it is very clear that it was represented to us at that time that the discriminatory provisions against American cars would be phased out.

Just one more word. I think I am almost out of time with that yellow light. The duty remission programs, as I understand it, the export-based duty remissions are going to be terminated vis-a-vis exports to the United States, but exports to third countries are permitted to continue until 1998. Is that correct?

Ambassador **Holmer**. That is correct.

Senator **Levin**. Do we believe that those export-based duty remissions are illegal under GATT?

Ambassador **Holmer**. We certainly concluded that, that the export-based duty remissions with respect to exports to the United States, we believe, violated the GATT.

Senator **Levin**. Is the Trade Representative not of the opinion that the Canadian export-based duty remissions, even vis-a-vis third countries, are illegal under GATT?

Ms. **Bello**. We want to look at that carefully, Senator Levin. The issue there is what is the extent of the adverse effect on United States commerce as a result of practices that affect exports.

Senator **Levin**. Is your answer you have not reached a conclusion on that?

Ms. **Bello**. I am not prepared to state a conclusion definitively at this time. No, Senator.

Senator **Levin**. Do you have an opinion which is not definitive? Do you have an opinion?

Ms. **Bello**. I think we would have a reasonably good case against any export-based duty remission requirements in the GATT. But it is much harder to mount that case and to win your panel in the GATT when what is at stake is exports to third countries and not to the United States.

Senator **Levin**. I understand. When you say you have a good case, is that the same as saying you are of the opinion that it is illegal under GATT?

Ms. **Bello**. You are trying to make it clearer, Senator, and I wish it were. The GATT is not quite as clear cut as the U.S. Court, and even that, as any attorney will tell you, is not clear cut.

Senator **Levin**. Thank you. My time is up.

Chairman **Glenn**. I want to thank Senator Levin very much for going ahead and starting the hearing. We have the defense authorization bill on the floor, and Senator Byrd had an amendment that he wanted to be brought up and I was involved in it. So I had to stay over there for a few minutes extra. I appreciate your going ahead and starting this, Carl.

I will have a longer opening statement, but let me summarize a few thoughts. I would ask that my opening statement be included at the beginning of the hearing record.[1]

Today, we are considering the United States-Canada Free Trade Agreement. This is a rather unusual hearing process we are going through, because the leadership in the Senate decided that the Agreement would go to some half dozen committees—various parts of it that is—rather than just to the Finance Committee. That is a rather unusual procedure, and it is how this Committee comes to these hearings today.

The Committee's work on trade thus far has almost exclusively focused on ways to improve our trading relations with Japan, Europe, and the NIC's—the newly industrialized countries. But today we are dealing with a country just across our northern border—a country where our trade relations has matured to the point that we are going to embark on a trade policy whose effects will be every bit, if not larger and perhaps more exciting and enduring, than those promised by the other initiatives which lie at the center of the current U.S. trade debate.

This Agreement basically pulls down most of existing barriers to trade between our two countries—a watershed event in our modern economic history. In 1986, the United States and Canada traded goods and services valued in excess of $150 billion, the largest bilateral trading relationship in the world. There are numerous benefits that can come from this Agreement. We do not know for sure, but what is hoped for is it will benefit consumers.

American consumers may experience lower prices for many goods as Canadian tariffs—an average 2 times as high as American tariffs—come down. Consumers on both sides of the border will also have access to a wider range of goods, services, and investment opportunities.

The FTA will also make both of our economies more competitive because it will create a larger market for United States and Canadian goods and services. Healthy industries will become more efficient as they realize some new economies of scale. Over-protected industries will have to streamline, and that will, indeed, put us in better shape for international commerce other than just that between ourselves and Canada.

The creation of a combined market of some 265 million people under the FTA will mean greater market leverage for United States and Canadian consumers vis-a-vis consumers elsewhere in the world economy.

Now, I would be remiss if I did not mention that not all parties are satisfied with the FTA, as has already been evidenced here today. Some industries and some regions feel that the FTA could expose them to ruinous and perhaps unfair competition from Canada. That is something we have to look at, as Senator Levin has been pointing out. Others believe that the FTA does not provide enough trade liberalization; still others, that the little gained for the United States in the FTA is guaranteed by ill-conceived institutions. I hope we have a chance to discuss all these issues here today.

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[1] See p. 4.

I believe it is important to remember that in our discussions today and in future deliberations on the FTA, we have in front of us what is, in effect, a "done deal." It might not be exactly the deal we, the Congress, would have made, but that is not what we are being asked to decide. Our job, under the fast-track procedure, is to judge whether this Agreement, negotiated by the President, is in the Nation's best interest—whether overall its benefits outweigh its costs.

That is what we are here for today. We have had Ambassador Holmer, of course, and there will be two other panels: First, Mr. William Archey of the U.S. Chamber of Commerce, Mr. William Cunningham from the AFL-CIO, and Professor Paul Wonnacott from the University of Maryland.

Then another panel will discuss the FTA from the perspective of several specific sectors of importance to the members of this Committee: Ashley Brown, Commissioner of the Ohio Public Utilities Commission will be talking about energy matters; Marc Santucci, advisor to Michigan's Governor Blanchard on trade issues, will analyze the auto provisions of the FTA, which Senator Levin has already addressed in some respects; Mr. Jim Collins is here to explain the position of the National Steel Producers Association; and Mr. Dexter Baker will speak for the chemical industry.

Mr. Holmer, as you know, the Committee has a substantial interest in opening international Government procurement markets. We worked hard during the conference on the Omnibus Trade Bill to strengthen the GATT Agreement on Government Procurement, the Code, as it is called. I am happy to hear that the FTA contains provisions that have the effect of opening some $500 million worth of Canadian procurement contracts to U.S. suppliers.

The FTA does this by lowering the ceiling on Government procurement subject to the strictures of the GATT Code. The FTA does not, however, go much beyond this reform. It makes no attempt to expand these strictures to non-Code-covered goods, services, or Government entities.

Does this omission mean, then, that the Administration does not plan to take up procurement of non-Code-covered goods and services during the Uruguay Round?

Ambassador Holmer. No, Mr. Chairman. We do want very much to achieve a liberalization of Government procurement markets on a multilateral basis. We believe there are a great many opportunities for U.S. exporters in the combined markets of our major trading partners, and more so there than with respect to any single country. And both the United States and Canada are pushing hard for such multilateral liberalization in the current renegotiation of the GATT Government procurement code. And I would note parenthetically, Mr. Chairman, how very grateful both Ambassador Yeutter and Mrs. Bello and I are for the leadership that you provided on Title 10 of the Omnibus Trade Bill. We hope somehow, some way, that we can get that and other provisions enacted into law.

Chairman Glenn. We worked on Title 10 quite a lot, as you are well aware.

In the FTA's procurement provisions we have not sent a potentially damaging message to our trading partners; that is, that the U.S. is not interested in expanding the scope of the Code?

Ambassador **Holmer**. I would like Mrs. Bello to respond to that, Mr. Chairman.

Chairman **Glenn**. Fine.

Ms. **Bello**. In Article 1307 of the Free Trade Agreement, we have provided for further negotiations with Canada, but after the renegotiations multilaterally that are ongoing in the Code. Our private sector has advised us that they think the best prospects for the overall U.S. economic interest can be achieved in this area through multilateral agreements rather than mere bilateral concessions. So we will return to the negotiating table with Canada, but we will not do that until we see what we can achieve first in the Uruguay Round, as you just mentioned.

Chairman **Glenn**. Another question. One of the outstanding and, I think, unnoticed concessions we received from the Canadians in the FTA is their agreement to establish a system for processing complaints from U.S. participants in their Government procurement market.

Now, we have long maintained such a system administered by our General Accounting Office, but there is no comparable complaint process that has been available to American suppliers in Canada. In your talks with Canada, have they indicated how they plan to structure this new system?

Ms. **Bello**. Mr. Chairman, they, as we, are in the process of drafting the legislation required up there to implement their obligations under the agreement, and similarly deciding, as we are, how they will procedurally and bureaucratically fulfill their obligations. I do not know precisely how we will do it, but we certainly concur with your view that this is an enormously significant achievement under the Free Trade Agreement that will substantially enhance our opportunities to sell more goods and services up there to the Government.

Chairman **Glenn**. I want to follow up a little bit on Senator Levin's comments. He made some good points regarding residual unfairness, as we see it, in United States-Canadian trade relations, particularly with respect to the auto industry. Just as he is interested in it, and I am, too, being from Ohio. And we are both interested in it for the sake of our whole country, too.

I think it is unfortunate that the FTA does not correct those problems. What does the Administration intend to do, if anything, to deal with the important problems that Senator Levin has been talking about? Is this going to be part of follow-on negotiations? We have to approve what we have in hand.

Ambassador **Holmer**. That is right. And we hope that you will approve it because the agreement includes a number of very important improvements over the current situation with respect to United States-Canadian auto trade. Therefore, we hope that you will approve the agreement and approve those improvements in the current practice.

We do not intend things to end there, however. And the agreement contemplates the establishment of a blue ribbon panel to continue to review the United States-Canadian auto trade. We anticipate that that will provide a continued forum for us to achieve, we hope, further improvements.

Chairman **Glenn**. Has anybody said that that blue ribbon panel is going to be binding, whatever its results are? We can form committees around Washington all day to deal with these things, and they do not have any strength other than advisory.

Ambassador **Holmer**. Well, no. There is nothing that will require that those recommendations be binding. I do not know if you or we would want to ensure that whatever it was that they came up with was going to be binding on the United States side, and certainly whatever may be recommended would involve further negotiations with the Canadians.

But it is a process that the Executive Branch does take very seriously, and, therefore, we hope that the language with respect to this blue ribbon panel can reflect that.

Chairman **Glenn**. Well, I guess I'll ask just one follow-up question on that. Is there any requirement as to who this blue ribbon panel reports to, what action will be taken pursuant to its recommendations and within what time period? Or will this be advisory with no required action following its advice?

Ms. **Bello**. Mr. Chairman, you are correct that it is advisory. We are in the process of deciding within the administration exactly how we want to set up the panel, how we select its members, and then how we bureaucratically position ourselves to respond to the recommendations, including, for example, such issues as whether we put time deadlines or at least a time goal.

Chairman **Glenn**. I was just going to ask, what deadline does it have? When is it supposed to get its report finished?

Ms. **Bello**. Almost all of those issues, Mr. Chairman, are open, and they are issues which we will resolve within the administration and, of course, in consultation with the Government of Canada. The agreement broadly establishes that there will be such a panel. We need to work out those implementing details with the Government of Canada.

Ambassador **Holmer**. I would add, Mr. Chairman, we want to work that out with all of you as well. You noted this fast-track process. We hope that the process that we are going to be undertaking now with the Congress is one that can permit us to draft the implementing legislation and the statement of administrative action in a way that provides some degree of comfort with respect to some of the concerns that have been raised here and in other congressional committees.

Chairman **Glenn**. Well, I would point out what seems to be a chronic difficulty up and down Pennsylvania Avenue. Sometimes we wish we were consulted before something like this is signed rather than afterward so that we get our oar in early on to let some of our concerns be known and be taken cognizance of during the negotiating process.

Senator **Levin**. Just a few additional questions.

Chairman **Glenn**. Go ahead.

Senator **Levin**. Thank you, Mr. Chairman.

I believe you had a list in your hands of alleged discriminatory practices by our Government against Canadian practices. You said that was sent to us pursuant to Section 337, was it?

Ambassador Holmer. What I had, Senator, was I have a list here of U.S. trade measures that are not affected by the FTA. I am a little reluctant to go down this entire list in a public setting, but I would be happy to meet with you privately and indicate the kinds of provisions that the Canadians wanted to have amended as a part of these negotiations, but where they were unsuccessful.

Ms. Bello. And that they believe are unfair trade practices.

Senator Levin. You made reference to Section 337?

Ms. Bello. That is one example. Yes, sir.

Senator Levin. Would you submit that list for the record?

Ambassador Holmer. Yes. I will submit for the record a list of those U.S. practices which the Canadians consider to be unfair without any agreement on the U.S. side that we necessarily agree with the Canadian characterization.

Senator Levin. And would you tell us which ones you agree with?

Ambassador Holmer. I do not know if you want me to, Senator.

Senator Levin. No, I think we do want you to because I think we want to be fair both ways on this one. You see, that is exactly what we do want.

Ambassador Holmer. Well, but it really is—and presumably you want me to be honest.

Senator Levin. Yes.

Ambassador Holmer. And there may be some where, if I give you an honest answer—and Mrs. Bello is off in Geneva trying to defend this before a General Agreement on Tariffs and Trade panel that is attacking one of these provisions—and I am not referring to Section 337, I would note—it may make that process more difficult. That is the only concern we have.

Senator Levin. Well, if they are right on something, why are we arguing against their position?

Ms. Bello. Because the Congress has legislated measures which it is the job of the Executive Branch to defend.

Senator Levin. Even where you think that it is in violation of a treaty that we have signed?

Ms. Bello. Yes, sir.

Senator Levin. That is very reassuring. We have had some different situations in areas other than trade.

In any event, if you would get us a list of those items that they have raised that they believe are in violation of GATT or some other agreement, and then if you could one way or another give us information as to where you believe they are right, that would be helpful to us.[1]

Ambassador Holmer. Okay.

Senator Levin. One additional question for you, and that is on the so-called production-based duty remission programs. As I understand it, we believe that they violate GATT; is that correct?

Ms. Bello. The production-based duty remission programs are essentially, Senator, a domestic subsidy, and the rules for domestic subsidies in the GATT are pretty soft.

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[1] See p. 131 for the list submitted by Ambassador Holmer.

Senator **Levin**. Do you have an opinion as to whether they violate GATT?

Ms. **Bello**. I think it would be difficult to establish any domestic subsidy challenge in the GATT subsidies code.

Senator **Levin**. Does that mean you do have an opinion?

Ambassador **Holmer**. Well, if I could, you have got our agency's lawyer here who, if the auto parts producers want to come in and file a case and if it is accepted and it is taken to the GATT, she would certainly prosecute it as vigilantly as possible. And I would admonish her to be careful as to what she says in a public setting about how strong or weak she thinks that case might be.

But with that, Judy, why don't you try to respond to the Senator?

Senator **Levin**. Okay. Relative to that case, in order for us to really understand the case, do we not have to see the actual remission orders or the contracts between the Canadian Government and the auto companies?

Ms. **Bello**. As you know, Senator, we have asked for those under Section 305 of the Trade Act, and to my knowledge, we have not obtained them yet.

Senator **Levin**. I know that, and when did we ask?

Ms. **Bello**. I do not recall the precise date.

Ambassador **Holmer**. It was quite a ways back, Senator.

Senator **Levin**. Quite a ways back? And what happens if we do not get them?

Ms. **Bello**. I believe it was January.

Senator **Levin**. So it is 4 months we have been waiting or 5 months. What are we going to do if we do not get them?

Ms. **Bello**. Well, if we do not get them and if a petition is filed and if we initiate a case, then we are entitled in the absence of the Canadian production of those documents basically to draw adverse assumptions.

Senator **Levin**. I would hope that the President would tell the Prime Minister that if we are entitled to those documents that they be forthcoming prior to the time that he submits this matter to the Congress. Now, we are either entitled to them or we are not. If we are, let us get them. If we are not, okay. If we are, I think the President ought to tell the Prime Minister we are entitled to them prior to the time he is going to submit the implementing legislation to the Congress.

That is what I call fairness and toughness and straightforwardness.

Thank you, Mr. Chairman.

Chairman **Glenn**. Thank you.

One further question before we go on to our next panel. One of the things not covered under the FTA was intellectual property protection issues, and those are becoming more and more important in many of our trading relationships around the world.

Why were they not covered in this agreement? And does this not suggest a problem we are going to have to address in the Uruguay Round?

Ambassador **Holmer**. It is a problem that we are attempting to address actively in the Uruguay Round. There are trade distortions with respect to Canada in two areas, in particular. One is pharmaceuticals and the other is basically retransmission rights with respect to broadcast to Canada.

With respect to retransmission rights, we obtained that provision in the agreement; with respect to pharmaceuticals, that has been handled. There are some improvements that have occurred outside the scope of the Free Trade Agreement. Basically, it was a situation where if we had insisted on negotiating a separate intellectual property chapter, Canada would have demanded significant concessions, all of which would have required congressional action and all of which would have been very contentious. I am talking about here—they indicated they wanted exemptions from Section 337 of our trade laws, from Section 301; they wanted adherence to the Berne Convention as a part of the Free Trade Agreement. They also wanted significant revision of the U.S. patent laws.

How many of those were absolute bottom-line Canadian positions, I am not sure, but it was our judgment that to get an intellectual property chapter the price was simply going to be too high. That does not diminish in any way the vigilance with which we intend to pursue this issue in the Uruguay Round.

Chairman GLENN. Well, if we are doing some things that are wrong, too, why, I think it is fair to address those things as well. I do not think we solve this problem by putting it off to another day. If we cannot negotiate this problem with Canada, of all people, we are going to have a hard time negotiating with anybody else around the world.

Ambassador HOLMER. Right.

Chairman GLENN. I hate to see us putting that one off just by saying it was too vexing for us to deal with.

Ambassador HOLMER. Well, I would just note that all the things that I described that they want, all of those are things that we think what we are doing is absolutely fine and do not need to change.

Chairman GLENN. Well, we could have come up with a bigger wish list too as far as that goes, if you want to get on that track.

Okay. Thank you very much.

Ambassador HOLMER. Thank you, Mr. Chairman.

Chairman GLENN. Thank you very much for being here today.

Our next panel consists of William T. Archey, Vice President, International Division, U.S. Chamber of Commerce; William Cunningham of the AFL-CIO, and Professor Paul Wonnacott, Department of Economics, University of Maryland.

Gentlemen, we welcome you to our hearing. If you would take your places, we would welcome your statements in an abridged version. In any event, your entire statements will be included in the record as delivered.

Mr. Archey, I have you first on my list. If you would lead off, we would appreciate it.

If all of you will remember to pull those microphones right up in front of you. I do not know. We talk about the world of high tech around here, and yet these mikes are anything but the highest of tech, I can assure you. So if you pull them up within 2 or 3 inches of your mouth, we would appreciate it so everybody can benefit from your statement.

TESTIMONY OF WILLIAM T. ARCHEY, VICE PRESIDENT INTERNATIONAL, U.S. CHAMBER OF COMMERCE [1]

Mr. ARCHEY. Thank you, Mr. Chairman.

I am William T. Archey, the Vice President International for the U.S. Chamber of Commerce on whose behalf I am testifying today.

The Chamber strongly supports the Free Trade Agreement. Because of the Chamber's membership of nearly 180,000 businesses and organizations is so extensive and diverse, the decision to support the agreement was not made lightly. The Chamber's Board of Directors did not endorse the agreement until its meeting on February 10th. The Board considered not only the views of the Canada-United States Relations Committee but also those of other committees, such as the International Trade and Investment Committee, Small Business, Natural Resources, and Agriculture.

In supporting the agreement, the Chamber recognized that the pact failed to deal with all of the outstanding disputes between the two countries and that it would entail some adjustment problems for some industries and individual producers. However, the Chamber believes that the agreement should be implemented because of the long-term benefits that it would bring to the economies of Canada and the U.S. as a whole.

Let me briefly summarize the benefits of the agreement and the main factors behind the Chamber's decision to support such agreement. First of all, we see lucrative new export opportunities where high Canadian tariffs and restrictions are removed; for example, high tech, capital goods, apparel, textiles, and as Senator Levin suggested, household furniture, certain luxury goods and others. Termination of many agricultural quotas and subsidies will boost U.S. exports. Provincial policies discriminating against U.S. liquor and wine will be ended. Canada will improve protection of U.S. patents and copyrights. Canada will end many restrictions on U.S. investment and particularly discrimination against the U.S. service industries. Also, U.S. consumers will benefit from lower Canadian energy prices.

The road to fair trade is a difficult one, and the ultimate goal of a worldwide fair trading system is probably something that will never be achieved. The U.S. must keep working toward that goal, however, as the alternative is to encourage the growth of trade restrictions and other forms of protectionism, which are the antithesis of economic growth and stability. As Philip H. Trezise of the Brookings Institution observed, in commenting on the integration between the Canadian and U.S. economies that would result from the agreement: "To believe that this interdependence will make one or the other or both of the nations poorer requires the parallel belief that a U.S.-Canadian border studded with obstacles to the movement of goods, services, and capital must contribute positively to national welfare in both countries."

Another aspect of the Canadian agreement which we think will have some considerable spill-over effects is, in fact, what was discussed in the earlier panel; that is, its impact on the GATT Round. We think that due to a combination of factors--some of which are increasingly sluggish demand in industrialized economies and the debt burden of developing countries–the emphasis in national trade policies has been leaning more to import restrictions and subsidized export activity. The discipline necessary for firm commitments to the principles of the Uruguay Round of GATT has been lacking.

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[1] See p. 23 for Mr. Archey's prepared statement.

We feel that the impact of the Canadian agreement may have a positive impact on restoring some of that discipline to the Uruguay Round.

Finally, I would like to make a few other comments. As a general rule, larger corporations exporting to Canada are well aware of the opportunities created by the agreement. In mid-1986, the Chamber surveyed a group of 800 U.S. corporations for their views on the proposed agreement. The response was overwhelmingly positive in terms of expected efficiencies and sales opportunities. Virtually all of the companies surveyed were already active in Canada, so they were well qualified to judge the effects of the agreement.

Among the small and medium size firms, however, there is generally less awareness of the opportunities provided by the agreement. Nevertheless, those opportunities are considerable, and the Chamber is working through its network of affiliated local and State chambers to convey the message to interested companies. I might also add, Mr. Chairman, that we have received a letter from the President of the Ohio State Chamber of Commerce strongly endorsing the Canadian Free Trade Agreement.

Major impediments to small business exports to Canada have been, in addition to high tariffs, Canadian customs and immigration procedures and the plethora of rules and regulations that characterizes the Canadian business environment. It is much more difficult for small firms to persevere in face of these difficulties, lacking the expertise and general resources available to larger firms. Many small business firms, therefore, have been discouraged in their efforts to try to penetrate the Canadian market. Accordingly, a significant consequence of this agreement will be to stimulate exports of those smaller firms.

The Chamber is, as I mentioned, sensitive to the adjustment problems that the agreement would entail for some firms and industries. Clearly, while the United States can anticipate increased exports to Canada, it can also expect more imports from Canada. Still, both countries must remember that the agreement was never intended to remove every friction between them. It represents a negotiated process, and the best way to judge it is to ask if it is the best deal both could get, not if it is the best possible deal.

Nevertheless, sectors of the U.S. economy will face new competition as a consequence of the agreement. In some cases, competitive advantages will reflect differences in Government support systems.

The Chamber believes that the various outstanding disputes between Canada and the United States, as well as those triggered by the agreement, should be placed on a special agenda where they can be considered in a cohesive fashion. It is essential that these affected industries be provided with the assurance that their concerns are being addressed with urgency. They must be satisfied that the agreement marks not the end, but a new beginning in bilateral relations.

In closing, the Chamber reiterates that its support for a comprehensive bilateral trade agreement has evolved through a long process of consultation with business and Government at all levels, and in all parts of Canada and the United States. It is convinced that the long-term benefits will far outweigh the cost of adjustment to new competition that may be necessary on both sides of the border.

That concludes my statement, Mr. Chairman.

Chairman GLENN. Thank you, Mr. Archey.

Mr. Cunningham, proceed, and then we will have a discussion here with all of you.

TESTIMONY OF WILLIAM CUNNINGHAM, LEGISLATIVE REPRESENTATIVE, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS [1]

Mr. CUNNINGHAM. Thank you very much, Senator.

On behalf of the AFL–CIO, Senator, we would like to thank you very much for your work on Title 10 in the Omnibus Trade Bill, H.R. 3, which was outstanding.

I think if we look objectively at the Canadian Free Trade Agreement, it would probably not pass the U.S. Truth in Labeling Act. It is not a free trade agreement under any circumstances. Basically, from the perspective of the AFL–CIO and, I might add, the Canadian trade movement, it locks in inequities between the two countries and, from our perspective, disadvantages United States industry and United States workers.

I think it is interesting, as Senator Levin brought out, that in all of the testimony by the Administration I have not seen any economic analysis by the Administration on who is going to benefit from this. All of the economic analysis of a governmental nature has been coming from the Canadians, who are declaring—quite rightly from our perspective—that they "won" and that they will do better under the Canadian Free Trade Agreement than we are doing.

I have not seen any information from this Administration to disprove that. Maybe there is, but I have not seen it.

Let me just quickly go through my testimony. The agreement itself, while removing the direction of market-determined trade, does not by any measure establish free trade. Significant inequities in trade practices will remain even after the 10-year transition period. What has been negotiated is not a free trade agreement but a new bilateral trade agreement, and it should be judged on the basis of fairness, reciprocity, and national interest. Regrettably, the agreement falls short of meeting these goals. A whole series of Canadian practices that discriminate against U.S. production have been grandfathered. By prohibiting the introduction of new measures to regulate or manage trade, the Canadian advantage has been solidified.

The administration has been for the last several years focusing on greater access for U.S. investment and services, both in the Canadian Free Trade Agreement and also in our international negotiations of the GATT. Our concern here is that by putting a priority on services and investment, we tend to denigrate the contributions of manufacturing. And, of course, we represent manufacturing workers.

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[1] See p. 132 for Mr. Cunningham's prepared statement.

Let me turn to specific issues that the Federation and its Executive Council have highlighted as problems in this Canadian Free Trade Agreement. The separate procedures established for Canada regarding trade remedy law are not only unwise, in and of themselves, but establish an extremely bad precedent for negotiations with other countries. These provisions have the potential of limiting the ability of the United States to take certain action under the countervailing duty and anti-dumping statutes, as well as Section 301 and the escape clause, Sec. 201. This could mean Canadian subsidies—many of which are, incidentally, provincial—will end through U.S. trade law action but many discriminatory Canadian practices have been essentially endorsed.

The existing inequities, as Senator Levin pointed out, between the United States and the Canadian implementation of the 1965 Auto Pact are retained. There are some marginal changes in this, but there is no effective effort to stem the growing use of imported parts into the Auto Pact agreement. The North American value required for duty-free entry into the United States is far too low to prevent erosion in North American content of vehicles produced by U.S. companies and would not significantly increase the North American value of vehicles assembled by foreign-owned "transplant" operations in Canada.

The existing inequities between the United States and Canada concerning the treatment of the trucking industry will continue. Currently, Canada's restriction on trans-border trucking severely limit the ability of U.S. companies to compete in that country, while Canadian companies have been able to operate with relative freedom in the United States since U.S. trucking deregulation was approved in 1980.

We have mentioned before the problem with textiles and the existing quota agreements that we have worldwide could be thwarted by the CTF. Canadian duty remission actions are also a problem.

Tariff rate advantages and duty remission programs will not be eliminated for up to 10 years, thereby encouraging Canadian production and discouraging U.S. exports to Canada.

In addition, as Senator Glenn pointed out, there is some modest changes in the Government procurement code. He quite correctly pointed out that we would have an advantage of perhaps getting up to an additional $500 million of U.S. procurement in Canada. What is not said is that because we have opened up access to our own Government market, we estimate that the Canadians will get $3 billion worth of U.S. Government procurement.

Incidentally, the Government procurement agreement does cover the provinces or the cities. So in terms of access to those markets, we do not have access to those two important markets, the provinces and the major cities. And I think that is important to know, although the administration says they will negotiate this issue next year or maybe the year after, or maybe after GATT, or maybe some time in the future.

U.S. immigration law is weakened by substantially easing the ability of "business and professional" persons to temporarily enter the United States. And a wide range of Canadian industries and agricultural commodities would continue to receive protection or favorable differential treatment. In addition we have problems with the natural resources, specifically uranium, in which we have workers; and, of course, the exportation of 50,000 barrels of north slope Alaskan oil.

Senator Glenn, our concern here is not only in this agreement, which we oppose and have serious reservations about. It is probably about the fast-track procedure itself. As the fast-track procedure was developed in 1979, there was an agreement, a literal agreement that the committees of jurisdiction would have ongoing consultations about such negotiations. And in terms of, at least, Senate Finance and Ways and Means, I think it is fair to say that the lack of consultation was palpable. It was thought until probably the last week or maybe even the day before the agreement was signed that there would be no Canadian Free Trade Agreement. Therefore, the attention of those committees and your own committee, perhaps, was not focused on this agreement.

A political decision by Secretary Baker was made, which is not unreasonable, that this agreement would go forward. Secretary Baker went to Canada and in one night negotiated all of the problems away to get under the time deadline. But I think it is fair to say that the congressional input was negligible, or nonexistent.

Our concern is and our view is that, given the absence of congressional participation at the first part of this process, that we would hope that the Congress would act in the implementing legislation and these "mock" markups in a much more substantive way than was perceived earlier. The idea that this is a "done deal," that you cannot do anything now probably undermines the idea of what was the original fast-track procedure.

We will be glad to work with your Committee in anything that you think we can help you with. Thank you very much.

Chairman GLENN. Thank you very much.

We will have a short recess for a vote now.

[Recess.]

Senator LEVIN [presiding]. Senator Glenn wants us to proceed. I understand, Professor Wonnacott, that you have not yet given us your statement. Is that where we are?

Professor WONNACOTT. That is correct, Senator.

Senator LEVIN. What I will do is—I must leave in a few minutes, with your understanding, I hope—is ask questions of each of you, and then you could proceed with your statement at that point. Otherwise, I am not going to have a chance to ask some questions.

Let me start, Mr. Archey, if I can with you. We would like to see some economic analyses of the Free Trade Agreement, sector by sector, industry by industry, perhaps geographically, to see if there are any geographical areas of the country which either are winners or losers. Has the Chamber either made such an analysis or have you seen such an analysis which has been made by anyone else?

Mr. ARCHEY. We have not directly done so in Chamber staff, but the Canada-United States Relations Committee has done some analyses. I have not seen all of them on certain sectoral issues. I do not believe they have done anything on a regional basis. The Canada Committee is a committee which is a part of the Chamber, and it works with the Canadian Chamber of Commerce which represents Canadian business.

[Pause.]

Mr. **Archey**. Fred Stokeld, who is the executive director of our Canadian Committee, confirms that we have done some, but also we understand that the Commerce Department itself has done an analysis on a State-by-State basis. I have not seen that study.

Senator **Levin**. Apparently, we have not, at least my staff has not seen that study. I do not know if it has been available to us or not. But with the Chairman's consent, we will direct our staff here to . . . apparently, the Committee staff have not seen that study either. I have checked with a couple of our staffers. We will ask the Commerce Department to provide us with that State-by-State study.

Do any of the panelists know whether or not an industry-by-industry, sector-by-sector study has been done by our Government? Let me ask Professor Wonnacott, and go that way.

Professor **Wonnacott**. I was about to answer before you said "by our Government," Senator. There have been some studies done by academics, but I am not aware of any done by the Government, although I hasten to add that they might have happened without my knowledge.

Senator **Levin**. But you are not aware of any?

Professor **Wonnacott**. No.

Senator **Levin**. Are you aware of any, Mr. Cunningham?

Mr. **Cunningham**. No, I am not. I think it is indicative that the only study I am aware of is the Canadian study, which basically says: We win, you lose.

Senator **Levin**. And, Mr. Archey, you have answered that question already.

Mr. **Archey**. I answered.

Senator **Levin**. Does it surprise you, Mr. Archey, that our Government has not done a sector-by-sector or industry-by-industry analysis, if, in fact, they have not?

Mr. **Archey**. I am not willing to prejudge that answer because I used to work at the Commerce Department. I would be surprised if, in fact, the Trade Development Office has not done such an analysis or the Foreign Commercial Service, because that would be part and parcel of their charter.

Senator **Levin**. All right.

Professor **Wonnacott**. If I might, Senator?

Senator **Levin**. Sure.

Professor **Wonnacott**. There has been some work done in the Labor Department on the employment effects, I believe on a sector-by-sector basis. That study was completed, I think about a month ago.

Senator **Levin**. We will seek to obtain that one, too. While we are on you, Professor Wonnacott, you have made reference to some private studies that were done.

Professor **Wonnacott**. One of them was already referred to, the Brown-Stern study which was done at the University of Michigan, mainly. I think it probably was not in as much detail as you have in mind, but it broke the U.S. economy down into about 20 sectors, as I recall.

Their conclusion was rather interesting. It is a conclusion which, incidentally, I do not agree with, but their conclusion was that the United States would gain and Canada would lose. The Free Trade Agreement would lead to a transfer of roughly a billion-and-a-half dollars' worth of welfare from Canada to the United States. Again, that is a conclusion I do not agree with.

They also made estimates of employment by major sectors, such as textiles. Most of the estimated employment effects are quite small. Interestingly, they saw the United States having an employment gain in textiles, but a slight deterioration in employment in the transportation industry. This, however, was only 0.3 percent over a 10-year period, which is not very much each year.

Senator LEVIN. Mr. Cunningham, we interrupted you.

Mr. CUNNINGHAM. Senator, I think it is indicative that the data on U.S. exports to Canada used in the negotiations was all Canadian data. To my knowledge, this is the only trade negotiation which the United States relied exclusively on foreign data. In other words, we were using Canadian import data in the negotiations. I think it is also indicative that until the day before the final negotiation, it was thought very widely that we would not have an agreement; therefore, a lot of the paperwork that was done was all Canadian, to my knowledge. We may be getting a lot of ex post facto U.S. data now, but in terms of the negotiating itself, the data used and the analysis used was all Canadian data from my understanding of it.

Senator LEVIN. Is that your understanding also, Professor, that we did not have that data available to us during the negotiations?

Professor WONNACOTT. In terms of the data or in terms of the analysis?

Senator LEVIN. In terms of the data available.

Professor WONNACOTT. My understanding is this is not correct in terms of the data. For example, in the automobile industry, which is a very important one, as you are aware, my understanding is that the countries both have for some time been using import-import data. That is, it is correct that the United States export data is taken from Canadian import data, but it is also true that the Canadian export data is taken from American import data.

The reason for that, I understand, is quite straightforward. Countries are much more careful about imports than about exports. Goods tend to get counted when they come in, whereas they may not get counted when they go out. Therefore, there was a general agreement on both sides that they would use the import data from the other side for their export data.

Senator LEVIN. You made a distinction between data and analysis.

Professor WONNACOTT. Yes.

Senator LEVIN. Let us talk about the analyses which are available.

Professor WONNACOTT. Yes. My understanding was that you wished me to talk first about the data.

Let me talk about the private analysis about which I know most. It is clear that much more attention was paid by academics in Canada than in the United States. For Canadians, the United

States is very important; but in the United States, Canada is not considered a very important subject.

This is also true on the Government side. There was, as you know, a cast of hundreds of people in Simon Reisman's office, including all sorts of working groups. There was much more attention paid on the Canadian side, not only relatively, but also in absolute terms, than was paid on this side. That does not mean, however, that I agree with Mr. Reisman's characterization of the American negotiators that was mentioned earlier today.

Senator LEVIN. Let me ask you, Mr. Archey, this question. It troubles me that in some sectors it would seem to me that we have left in place discriminatory practices. We have mentioned automobiles. I think it is true in terms of television and films. It is true in terms of beer, wine. It is true in a number of other sectors.

Have you done an analysis at the Chamber as to where we expect improvements, where we do not, and where we are going to probably see some losses because of Canadian competition?

Mr. ARCHEY. Well, I think even though it has become almost trite in describing the agreement, I think first of all the most overwhelming thing that our Board looked at and the Canadian Committee of the Chamber looked at was the abolition of the tariffs and the impact that that was going to have. I cited some of the industries—one of which you had cited, which is the furniture industry—some high tech industries—there are a number of them—and farm implements, particularly, large farming machinery. There are two or three of these companies in the United States that we have been in contact with who, on the basis of just the tariff abolition, would see a $60,000 difference in price.

So on that, we think there are enormous benefits. We think there are going to be enormous benefits occurring in the service sector. And although the argument that I think my colleague from labor makes, and I think with some justification—that the whole issue on the trade balance is going to revolve around our performance in the manufactured goods, in which I think he is absolutely right—the fact also remains that much of the imbalance in goods with Canada in terms of the two-way trade is not entirely but is substantially offset by our advantage in the services industry. The largest growing area in terms of trade in the world is services.

We also think that the fact that new U.S. investment opportunities for the most part, except for that floor on anything over $150 million investment in Canada, are going to mean a major advantage for U.S. companies to get into the Canadian market in terms of pretty much unfettered investment.

Senator LEVIN. Has the Chamber also looked at the disadvantages as well as the advantages? For instance, have you added up where the Canadians will come out ahead, where we will come out ahead, and decided that it is even? Or how do you go about that? Probably the Canadians have a list of things with which they are arguing to their people: Look, we are going to come out ahead this much in removing tariffs, this much in removing restrictions, this much in terms of access. They have gone down a list.

Have you at the Chamber gone down a list of where we——

Mr. ARCHEY. Not in every single sector, we have not. We did some analysis about a year ago under the auspices of the Canadian

Committee. Professor Wonnacott and several other academics were hired, in fact, by the Canadian Committee to take a look at certain sectors. Energy was one. And we did not look into all of the details on auto parts. But what we came to conclude in looking at a few sectors—agriculture was one, both agricultural commodies and agricultural machinery—and we concluded what I said in my prepared statement. We are not saying, Mr. Levin—and I want to be clear about this—that this agreement is without flaws or that it is the perfect agreement.

What we are saying is, relative to the status quo, we think it is a considerable improvement, and that it is clearly a step in the right direction. But there are some people who are not—we are not saying they are per se disadvantaged by the agreement in terms of the status quo, but they maybe are not as well off as others in the agreement.

But we do think that, in balance, this is an agreement that clearly enhances the economic interest of the United States and the economic interest of Canada.

Senator LEVIN. In trying to look at that balance, do you think that it is useful for us to evaluate the impact of this agreement on particular industries?

Mr. ARCHEY. I think that should be a part of the process, and I think that you will find that in some instances there is clearly going to be some increased competition in the energy area, certainly in the uranium area, which has become well known. And, again, I think what we tried to do was balance the individual sectors against what the overall benefit was to American economic interest, and we came out clearly in favor of the agreement.

Senator LEVIN. In looking at the overall picture, don't you have to look at each industry, look at each sector, and then add them all up?

Mr. ARCHEY. Yes, I think you do. And I think that we did do some in the major sectoral areas, and we concluded that whatever the competitive disadvantages, for example, in the energy area—that overall they still paled against the significant advantages that would accrue.

Senator LEVIN. Ambassador Yeutter said the following a few months ago: "It would be a terrible mistake to evaluate this agreement on the basis of its impact on particular firms, industries, or even States."

Do you agree that it would be a terrible mistake to evaluate this agreement on the basis of its impact on industries?

Mr. ARCHEY. No. I think that there is a legitimate reason to look at the impact on industries. And I think that is probably what Ambassador Yeutter is getting at. Clearly, if you get into sector by sector, there is going to be some disadvantages. The question that has to be weighed is: Where does that play off against the overall benefits just from the tariff elimination itself?

Senator LEVIN. Where would you estimate the disadvantages lie?

Mr. ARCHEY. Well, again, I think we have noted one is the energy sector, some concern about the poultry industry, the question, I think, on the issue of the textile remission program. But I would note to you that we have gone on record as recently as just a couple of weeks ago to members of the Senate. Ray Farley who is the Chairman of the Board at Johnson Wax and chairman of the Chamber's Canada-U.S. Relations Committee sent a letter saying that we are concerned, that this textile remission scheme, which may be quite legal, does violate the spirit of the Canadian agreement, and urged the Canadians to withdraw.

Senator LEVIN. Have you made an analysis on the auto parts impact?

Mr. ARCHEY. No. We have not, sir.

Senator LEVIN. Mr. Chairman, I wanted to ask questions before I had to leave. I interrupted Professor Wonnacott. He did not give a statement except in response to questions. He may have been able to slip in a little bit of his statement; I do not know.

In any event, I did not give Professor Wonnacott an opportunity to give his statement.

Chairman GLENN. Fine. Go ahead, Professor. Please give your statement.

TESTIMONY OF PAUL WONNACOTT, PROFESSOR OF ECONOMICS, UNIVERSITY OF MARYLAND [1]

Professor WONNACOTT. Senator, I will try to make this brief because I have a feeling that the questions and answers are more interesting.

I have been looking at this subject for over 25 years, in part with my brother who is a professor at the University of Western Ontario. When we started our study some years ago, we thought that there would probably be positive gains but they would not be very large. We found something rather interesting as we went more and more into detail. We came to the conclusion that the gains would probably be very large, particularly on the Canadian side. At that time, we estimated that the gains in Canada would be 10 percent of GNP, which is a very large figure indeed.

I hasten to add that I do not think that the gains from the present agreement will be anything like that large for a number of reasons, one of which is that we have had already a substantial decrease in tariffs between the two countries.

Before I get into the details of my testimony, let me state my bottom line. I strongly recommend that the Free Trade Agreement be ratified. The sources of gain include the following: First, a phased elimination of tariffs between the two countries over a 10-year period. As Canadian tariffs are generally two to three times as high as U.S. tariffs, the United States has a particular interest in tariff elimination. It is that disparity in tariffs which leads Brown and Stern to come to the conclusion—which we referred to while you were out of the room, Senator—that there would be a gain for the United States compared to Canada.

The second source of gain is the greater scope for economies of scale. Because the Canadian market is so much smaller than the U.S. market, it is Canada that has the most to gain from this source.

A third thing is a substantial reduction in the sources of friction between the two countries, particularly regarding automobiles and investment flows. Perhaps it is foolhardy for me to say so, but I would welcome further questions on the automobile industry if you would like to pursue that topic.

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[1] See p. 147 for Professor Wonnacott's prepared statement.

A fourth thing is a dispute settlement procedure which reduces the risk of conflicts over trade policy.

Fifth is greater stability in energy markets because of the energy parts of the agreement. Let me emphasize that I think it is the stability of markets which is by far the most important single thing on the energy side. It is not so much a change in prices, but the fact that there is going to be more stability in that market.

Traditionally, in estimating the gains from free trade, economists have focused on redirection of resources that comes with lower tariffs. Capital and labor are encouraged to move out of low productivity industries into higher productivity ones. Recent work, such as that of Bob Hamilton and John Whalley, suggest that the combined gains for the two countries together would be something like 4 or 5 billion dollars per year from this resource reallocation effect. This estimate should, however, not be considered precise.

Using a different model, Brown and Stern found very little efficiency effect of resource reallocation. Their main conclusion was that bilateral free trade would cause a transfer of about $1.5 billion of real income from Canada to the United States. Again, that was a result of the fact that the United States has lower tariffs than Canada, and Canada would be giving up the higher tariffs.

On the other hand, these studies focused on standard industrial sectors and, consequently, leave out some of the larger sources of potential gain. Most notably, there is no estimate of the efficiency gain in the energy sector. The Free Trade Agreement will lead to greater use of Canadian hydroelectric power by the northern States. Gains from this source, however, are difficult to estimate. They arise because of the difference in cost between new Canadian dams and hydro power, and the more expensive alternative sources of energy in the northern United States, such as nuclear power plants. The costs of nuclear power plants are, of course, notoriously difficult to estimate in advance.

Even if full account could be taken of such complications, the resource allocation effect would still be overwhelmed by the efficiencies that come with larger scale production. This conclusion, which was set out in our earlier study in 1967, has been confirmed by more formal and detailed work in the past decade, particularly that of Rick Harris of Queen's University in Canada. Harris estimates that if a free trade agreement had been in effect in 1980, the gains from greater economies of scale would have been in the $20 to $25 billion range. In nominal dollar terms, he thinks that this figure has not changed much since 1980.

What we are talking about, then, is an overall annual gain to the two countries in the range of $25 to $30 billion at current prices. How would this gain be divided? The standard conclusion—which I share—is that most of the gains will go to Canada because of the importance of economies of scale.

Economies of scale mean that most of the adjustment will occur within industries; movements of workers and capital from one industry to another will be small. Brown and Stern find that employment should change by no more than 0.3 percent in any U.S. industrial sector as a result of bilateral tariff elimination—that is, no more than 0.03 percent per year over the 10-year period when tariffs are being phased out. Thus, inter-industry adjustments caused by free trade will be very small compared to other adjustments continuously occurring within the United States economy.

Nevertheless, objections have come from a number of industries. For example, in the automobile industry—which presently accounts for one-third of our total trade—objections have been heard from parts producers and from the United Automobile Workers. Interestingly, the Canadian Auto Workers and a number of parts producers in Canada have also objected.

We have a situation where the unions in that industry have objected on both sides of the border. Indeed, that is true of unions in some other industries as well. I think that on both sides of the border, the union movement has been one of the major objectors.

This raises an obvious puzzle. How can both sides be worse off, particularly as the net effect of the agreement should be some reduction in imports from overseas?

My answer to this is that they will not both be worse off. The automobile workers union and parts firms in the United States are objecting because they did not get what they wanted most. What they wanted was a complete elimination of the Canadian safeguards associated with the existing Auto Pact. On the other side, the Canadian Auto Workers wanted no change. The Free Trade Agreement provides a compromise. This has been explained in some detail in earlier testimony, but I might mention the main points.

The scope of the Canadian safeguards is narrowed; Japanese and other new overseas producers will be not eligible for membership in the Auto Pact. Canada also agreed to eliminate its ill-conceived automotive duty remission programs. For the parts producers, there was an effective increase in the North American content requirement. Presumably, the way to judge a new agreement is to compare it to the existing situation, not just to the package that you would like to have most. From the viewpoint of the U.S. auto industry—in my opinion, workers, parts producers, and vehicle manufacturers alike—the Free Trade Agreement represents an improvement over the status quo. Furthermore, if the Free Trade Agreement is rejected, it seems unlikely that we can go back to the status quo. Before the Free Trade Agreement, we were moving toward a confrontation with Canada over automotive trade.

If the Free Trade Agreement is rejected, it will be imperative for new negotiations to begin on outstanding automotive problems. In such circumstances, it is hard to see how any Canadian Government would have the political elbow room to negotiate an agreement more to the liking of U.S. unions and companies. The result, it seems to me, would probably be messy at best.

Free trade between the United States and Canada is an idea whose time has come. For more than a century—dating back before the establishment of the Canadian nation—a bilateral free trade agreement has been considered from time to time. But it takes two to make an agreement. When Canada was willing, the United States was usually reluctant, and vice-versa. The only time when the two countries came to a comprehensive agreement was in 1911, which I note is the year in which President Reagan was born. That agreement was rejected at the polls by the Canadian electorate. If the present agreement is turned down, will we have to wait many decades for the next change? Will we have to perhaps wait until someone born in 1988 grows up to become President?

The Free Trade Agreement is good economies. My guess is that it is good politics, too.

Thank you, Mr. Chairman.

Chairman GLENN. Thank you. We will consult our astrologers!

Mr. Cunningham, in his testimony, brought up the issue of the exchange rate and whether the Canadian dollar is under-valued, and how under the FTA we are going to keep it at the right level. Is it at the right level now? Are the traditional fluctuations going to upset it? Mr. Wonnacott, with your economic background, you would be a good one to start out the discussion on this point?

Professor WONNACOTT. I did a study about a year-and-a-half ago for the Institute for International Economics. One of my collaborators was John Williamson, who has looked into this particular issue about as carefully, I think, as any economist.

At the time when we started our study, the Canadian dollar was about 71 cents U.S. After considerable study as to the fundamental equilibrium, Williamson came to the conclusion that the equilibrium exchange rate at that time was approximately 74 cents. As you know, it has now gone up to about 81 cents in the markets. So according to his estimates, we have gone from a situation where the Canadian dollar was slightly under-valued to a situation now where it is slightly over-valued.

Incidentally, his estimate of the equilibrium value of the Canadian dollar would have to be revised upward somewhat because of the partial recovery of raw material prices. The price of oil, as you know, has gone up, and the price of aluminum and so on.

Chairman GLENN. Well, as long as we do not have our currencies pegged to anything, we can rely on them to be freely floating. As long as they are, is this likely to be a problem under the FTA?

Professor WONNACOTT. Well, it can be. Let me talk about it in a wider context. We have had a freely floating exchange rate, and the height to which the United States dollar rose in early 1985 struck me as though it was a major problem, yes. I would not argue that a freely flexible exchange rate is necessarily correct, even though I participated in the decision 15 or 20 years ago for the United States to move towards more flexible exchange rates.

Chairman GLENN. Would there be any way we could write into this Agreement a provision stating that if the fluctuations go beyond a certain level, it would trigger other changes? Has that ever been done in any bilateral agreements that you are aware of?

Professor WONNACOTT. No, not that I am aware of. The question has arisen, of course—well, I am sorry. I should come back on that. Within the European Community, they have a monetary system which they brought in since the community was established, which has central rates which change from time to time. And they have rates at which you intervene. There is, of course, consideration being given to the whole issue of target zones by the United States Treasury and elsewhere.

I would be moderately sympathetic towards a move in such a direction, but I do not think it is necessarily appropriate that target zones be considered as part of a trade agreement. There are other institutions in which exchange rates can be addressed.

Not everybody agrees with me. The National Association of Manufacturers, I understand, takes the position that it would have been appropriate to consider the exchange rate as part of the bilateral trade agreement with Canada. But the decision was made, I think, on the part of both Governments that it would be desirable to deal with it independently.

Chairman GLENN. Mr. Cunningham, you brought it up in your statement. Would you care to comment?

Mr. CUNNINGHAM. I wish I were enough of an economist to do it. My understanding was that the exchange rate differential was one of the things never considered. And the only thing I would point out, Senator, is that where you tend to focus on tariff reduction as the basis for this agreement, that you can make up for that in the exchange rate differential, I do not want to pretend that I know exactly what the right differential would be, but just to point out that because the administration never negotiated on this key component of the trade negotiation. It has been left out of this agreement and may never be raised again.

Chairman GLENN. Mr. Archey, do you have any comment? We have seen the strength of the dollar go up and down, seen our markets disappear, and now come back to some extent. We are still hoping they will come back more. So we know that a change in exchange rates has a tremendous impact. Do you see the Canadian dollar fluctuating enough so that it would cause any disruption like that under the FTA?

Mr. ARCHEY. No. As Mr. Wonnacott was just saying, I think there have been some sharp changes in the last 2 years on that, and I think that the under-valued Canadian dollar is no longer under-valued. I think the second point that we made was we looked at this issue and basically concluded that exchange rates is clearly something that has to be addressed in a multilateral forum. There are other fora for doing that.

I would note, by the way, Senator, that it is dealt with, in fact, in the proposed Omnibus Trade Bill. That is, negotiations are required to take a look at the whole question of target zones, on the whole question what should be the variance in exchange rate differentiation in a given period of time, et cetera.

So there is some real consideration of this on the part of the Congress and on the part of the Executive Branch, but I do not think it is well dealt with within a bilateral framework.

Chairman GLENN. I have another question. There will be a lot of market adjustments, both here and in Canada, as industries adapt to new competitive opportunities, risks, and new competition. How about the timetable for the phase-down of tariffs under the FTA? Does it allow a reasonable enough amount of time for these adjustments to take place? Would any of you care to comment?

Mr. CUNNINGHAM. Well, it is our view that if the entire agreement is based on, or a significant part of the agreement is based on tariff reduction that it should come much more quickly; because as was pointed out, I think by Alan Holmer, they have a competitive advantage inasmuch as their tariff is 2 or 3 times higher than our tariffs. So any reduction or delay in reduction of tariff in key sectors basically favors Canadian products versus American products.

Chairman GLENN. How about the timetable that is laid down? Do you favor it, or do you think it should be lengthened or shortened?

Mr. CUNNINGHAM. I think it probably should be shortened considerably.

Chairman GLENN. Shortened. Mr. Wonnacott.

Professor WONNACOTT. I think it is about right. The longest period will be 10 years. There are some items where it will be cut quicker; 5 years, for example. This strikes me as though it is not inappropriate.

Chairman GLENN. Mr. Archey, do you have any opinion on that?

Mr. ARCHEY. I agree with Mr. Wonnacott, but from this point of view: I think from a political point of view, given the fact of taking away the advantage that Mr. Cunningham has noted, that some of the removal of the tariffs politically was not do-able politically in any shorter period of time.

Chairman GLENN. Another question. We are going to lower tariffs under the FTA. There will be two effects. It will create trade, and it will shift trade, that is, divert trade. Today, we may be buying from some of the least cost producers—buying things from abroad in countries other than Canada, and we want that trade to continue. But under the FTA the advantage of that least cost producer may be lost. Are we liable to divert trade just from one part of the world to another—Canada? And what impact is that going to have? Is it a factor we need to consider?

Anybody. Maybe nobody wants to touch it.

Professor WONNACOTT. The term trade diversion was originally coined by Professor Viner at Princeton. He argued that one of the difficulties with a bilateral agreement is that it can be used as an excuse for fixing the wagon of the countries that are not at the table; that is, it is used as a way of diverting trade which the Japanese or the Europeans otherwise would have gotten. If markets are taken away from non-participants, trade is diverted, and there is a decline in worldwide economic efficiency. This Viner considered and undesirable side-effect of the regional free trade agreement.

My judgment is that there is not likely to be much trade diversion from third country sources in the Free Trade Agreement between the United States and Canada, in part because the bilateral trading relationship is already so close. There may be a few exceptions; it depends a bit on how narrowly you define trade diversion. A purist might define a lot of the United States-Canadian automotive trade as trade diversion. I would not agree. However, there is some tendency to divert trade. For example, the effective increase in the North American content requirement is automobiles will have some adverse effect on the Japanese.

I have gotten the impression this afternoon that such trade diversion might be welcomed.

Chairman GLENN. Anyone else want to comment on that?

[No response.]

Chairman GLENN. Senator Heinz.

Senator HEINZ. Mr. Chairman, I have an opening statement. I would ask unanimous consent to place it in the record.[1]

Chairman GLENN. It will be put in the record in its entirety.

Senator HEINZ. I regret I was unable to be here for the testimony of the three witnesses. Indeed, what I would like to do, if they will permit me, since I have another engagement I must return to, is just put in a word on behalf of one of our next witnesses, Dexter Baker, the Chairman of Air Products, who is not only a long-time personal friend, but is from a State which is privileged to be headquarters to a very large number of some of America's best enterprises and corporations. We are particularly privileged not only to have Air Products but to have somebody who, his peers, the people in those companies and enterprises, and in the community where Air Products is located, the Allentown-Bethlehem area, have reorganized as a far-sighted, dynamic entrepreneur and leader who has been instrumental in powering the tremendous success of Air Products over many years.

I say that because Air Products is not only one of the most important employers in the Allentown-Bethlehem area of Pennsylvania, but it has a dynamic record of growth that has been important to that area, to our State, to our Nation, and, indeed, is one of our country's most aggressive overseas international companies.

So when Mr. Baker's opportunity to testify comes, Mr. Chairman, he speaks with a tremendous amount of practical knowledge that comes the hard way: he earned it. I welcome him to the Committee. I express my apologies, Dexter. I will not be able to be here for your testimony. But, Mr. Chairman, I commend you, I thank you, indeed, not only for the hearing but for inviting an outstanding panel of witnesses and from my point of view, of course, biased as it is, first among them Dexter Baker of Air Products.

Chairman GLENN. Thank you. Thank you very much, Senator Heinz.

Gentlemen, thank you. We may want you to respond in writing to some other questions from other Committee members that were not able to be here today. And we would appreciate your response to those.

Thank you very much.

Mr. ARCHEY. Thank you, Senator.

Mr. CUNNINGHAM. Thank you.

Professor WONNACOTT. Thank you, Mr. Chairman.

Chairman GLENN. Our final panel today is Mr. Ashley Brown, Commissioner of the Ohio Public Utilities Commission; Mr. Marc Santucci, advisor on auto trade issues to the Governor of Michigan, Governor Blanchard; Mr. Jim Collins, President of the National Steel Producers Association; and last but certainly by no means least, after that introduction, Mr. Dexter Baker, Chairman of the Board, Air Products and Chemicals, Inc.

Mr. Brown, we welcome you here today. Thank you very much for being here. If you will, proceed with whatever statement you have. If there is a longer statement, it will be included in the record in its entirety. Thank you for being with us today.

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[1] See p. 7.

TESTIMONY OF ASHLEY C. BROWN, COMMISSIONER, PUBLIC UTILITIES COMMISSION OF OHIO [1]

Mr. BROWN. Thank you, Senator. I appreciate the opportunity to be here.

I will skip over my self-serving introductions here and go to the meat of the issue. At first blush, I think the Free Trade Agreement on both electric and on gas trade seems to indicate some benefits to American consumers. I think in some more detailed analysis, though, you come to a little bit different—at least I come to a little different conclusion.

At first blush, it is fairly clear there are some benefits on both the gas and electric sides. In the first place, it eliminates the National Energy Board's requirement in electricity that the Canadians price their power at the U.S. avoided cost. It does not prohibit that practice, and my own suspicion is that it will continue. But it does eliminate the requirement of Canadian law that it continue. It freezes in place certain subsidies the Canadians provide to electric power, which result, I suppose, in lower prices, at least in the short term. And it also eliminates any discrimination in the event of curtailment.

On the gas side, the biggest benefit is that it enhances the supply, and by the laws of supply and demand, I think it will have a price benefit for American consumers. It eliminates Canadian export fees, which, again, should translate into a benefit for American consumers. Again, it eliminates discrimination in the event of curtailment.

When one looks at the longer term implications, however, I think some of the gas benefits stand up under scrutiny, and I think some of the electric benefits may not. Let me talk a little about why that is. First, though, I think it is important to point out some very important distinctions between the gas and electricity markets.

Gas is a commodity and, of course, electricity is not. It is an industrial product. That distinction means that the institutional characteristics of the industries are quite different. Fixed costs are a higher percentage of the costs of doing business in electricity than they are in gas. Environmental costs and problems are significantly higher in electricity than they are in gas. The physics of moving electricity is extraordinarily more complex than the transportation of gas, and thus it necessitates a higher degree of institutional coordination and mutual reliance by electric utilities than it does for gas companies.

Finally, both the market structure and public policy considerations for electricity and gas, while similar in some regard, are not at all the same. As a result of these differences, the analysis of each is somewhat different.

Let me look at it in terms of four specific criteria. One is security and reliability; two is the impact on domestic energy infrastructure and long-term price implications; three is external costs—that is, external to the transactions in question; and four is in regard to the process for redress of grievances.

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[1] See p. 173 for Mr. Brown's prepared statement.

First, in terms of security and reliability. Some things are obvious; one is that there is obviously no U.S. control over security north of the border. In the electricity aspect, I think that is far more critical than in gas because in many cases the electric imports in electricity come over long distances through sub-Arctic conditions which lend themselves to both not only security but also climate-related difficulties.

Two, I think that Canadian domestic politics—and when I say domestic politics, I mean constitutional debate over provincial versus Federal authority—may make the supply less reliable than the agreement itself seems to suggest.

Next, the history of some of the Canadian electric exporters, particularly Hydro-Quebec, is one which raises concerns about reliability of power supplies that they export.

On the gas side, when you look at security and reliability, I think the concerns are less severe. One is that when the U.S. market is assured of non-discriminatory access to Canadian supplies, the gas interruptions where they occur are less problematic to the U.S. economy than electric interruptions, in part because gas can be stored and electricity cannot, and also in part because gas curtailment may be easier to foresee and deal with, and I think priorities are better established in gas curtailment than they are in electric.

Third, there is actually little change in terms of the distance over which gas has to travel for marketing. For domestic producers, it comes over thousands of miles of lines, mostly from the southwest to U.S. markets. If it comes from Alberta to U.S. markets, you have got the same kind of considerations. And clearly, gas lines are less subject to weather problems than are electric lines.

Secondly, in terms of the impact on domestic energy infrastructure and long-term price implications, I think one thing is critical. That is, on the electric side I think this agreement tends to minimize or diminish the long-term possibilities of competition. On the gas side, I think it tends to enhance them. On the electric side it gives the Canadians a substantial leg up in bulk power markets, because of institutional characteristics, and in part because of a failure of domestic policy in developing transmission systems. I think the Canadians will have access to U.S. markets in ways that U.S. domestic producers, including those near and dear to us in the Ohio Valley, will have access, particularly in the northeastern markets, but that also applies to other regions of the country.

Secondly, I think that it retards the development of technologies, particularly clean coal technology, which I think in the long term advantages the United States in terms of environment—and for that matter, it also advantages Canada in this regard. And in regard to the issue of acid rain, I think to the extent to which we do not have a sophisticated bulk power market between the Midwest and the Northeast, a potential resolution is through essentially the inter-regionalization of funding of acid rain controls, but under the Agreement, I think we lose that possibility for compromise resolution of the acid rain dilemma.

Fourth, I think that the agreement tends to retard the development of transmission capacity because, one, it continues to allow Canadians to engage in pricing, as I indicated earlier, at the U.S.

avoided cost; but, number two, because of a real irony in the nature of the electric flows, and that is ratepayers in the Midwest and in parts of the Northeast are required to subsidize the importation of Canadian power to other northeastern markets.

Forty-three percent of all of Ontario-Hydro's exports to New York State come through Michigan, Ohio, and Pennsylvania on their way to market. And the fact of the matter is that those companies that are transporting those Canadian flows with no price compensation are, in effect, potential competitors of Ontario-Hydro for the Northeast markets, and yet they are required to subsidize their competitors.

That is not necessarily because of the Free Trade Agreement. I think, however, the Free Trade Agreement tends to enhance that negative effect. It is ironic in that regard that the Canadians have been very successful in inserting language into the agreement which is designed to compel the Bonneville Power Authority to reexamine its own transmission access policy which has had the effect of denying British Columbia Hydro access to the California markets. But at the same time, the agreement tends to reinforce transmission bottlenecks that preclude U.S. domestic producers from getting into northeastern markets.

In contrast to the electricity market, however, in gas I think that the market is enhanced by this agreement, which I think inures to the benefit of everyone. The infrastructure for moving domestic gas to market, as I indicated earlier, is already in place. In fact, if anybody has a disadvantage in the gas market, it is some of the Alberta producers that may not have enough infrastructure to get into some of the larger U.S. markets.

Also, I think that it tends to enhance—although I would say this with some degree of trepidation—but I think it does tend to enhance the displacement of Mideast oil in some areas. I say that with some trepidation because I am not enamored of the idea of a lot of gas being used for firing up boilers to produce electricity. While I think we need a fuel mix, I think conservation is not to be ignored as an important element.

Chairman GLENN. Does it also back out Ohio coal?

Mr. BROWN. I do not know if it would so much back it out as much as it would deprive it of a market opportunity and deny us the opportunity to expand. But, of course, as you know, Senator, I am not at all parochial. I just view Ohio as very important. And I know that we share that non-parochial perspective.

Let me turn for a second to external costs—that is, external to the transactions in question I think that the electric—in fact, you made the perfect segue, Senator. On the electric side, I think we do lose a market opportunity for domestic resources, and not the least of which is Ohio coal. It may mean lost jobs, the export of capital that could otherwise be domestically invested, the adverse infrastructure effects that I talked about earlier. And these costs, while external to any individual transactions, and perhaps totally irrelevant to the parties involved, are nonetheless of great importance as public policy issues, and they set the framework within which the cross border sales occur. Those costs are certainly relevant to congressional consideration of the Free Trade Agreement.

I would also note another important area, and that is that if we are going to talk about a North American energy market, then I think we also need to talk about a North American ecosystem. I do not intend to go into a great deal of detail, but suffice it to say the Canadian environmental regulation is considerably more, euphemistically speaking, flexible than U.S. environmental regulation. I think it does tend to put American electric energy producers at something of a disadvantage.

In regard to natural gas, I think, again, we are expanding the overall market for gas, and I think that will create a better business environment for producers, as well as distribution companies and transmission companies to operate. The environmental issues on gas, whether Canadian law is less restrictive than American law is largely irrelevant; because while there are gas environmental issues, they are certainly of "less" degree of significance and lower economic costs than they are in electricity.

Finally, I think that as we expand the gas market, we are going to have the result of enhanced technological development, whereas, than in electricity I think for some fuel sources we will tend to retard technological development.

Finally, in regard to the fourth area of analysis, the mechanisms for redress of grievances, I would simply say that the resolution mechanism in the Free Trade Agreement is one that is not very satisfactory. I think it is ideal for those of us that may want to go into private law practice and argue and debate endlessly, but I do not think it provides for clear resolution. And because it does not, I think on the electric side that presents some very real problems because of the institutional and infrastructure restraints I talked about earlier. It adds just one more disincentive to developing an effective bulk power market within the United States.

Secondly, I think there is a real question under the GATT as to who has standing to challenge Canadian dumping if, in fact, that occurs. We do not have any clear domestic bulk power producers who might have standing to challenge. Whether co-producers do or not, I could construct an argument that they could, but I must confess that is not a clear issue. It may well be that by lack of standing we do not have any effective protection against dumping in the electricity market—dumping which would have the effect of maintaining and perpetuating those infrastructure problems that we have now.

Finally, on the gas side in regard to those, I do not see that as a problem—certainly there is no standing problem. American producers would have standing to challenge Canadian producers if they believed they were dumping. And, finally, I think that even the cumbersome nature of the dispute resolution mechanism is not as important in gas simply because, as I indicated, the competitive advantage in terms of infrastructure is already with the U.S. gas producers. And I think that the long debates and attempts to resolve things do not put U.S. producers at any particular disadvantage. And I think in the long term, U.S. consumers are going to benefit.

So the bottom line, in conclusion, Senator, is I believe that on the gas side this agreement has the beneficial effect of enhancing competition. On the electric side, I think it may, in fact, have the effect of retarding the development of an effective competitive bulk power market.

Thank you.

Chairman GLENN. Thank you. Thanks very much.

Mr. Santucci, before you start, Senator Levin wanted me to give you his regards. He is sorry that he had to leave. You are on Governor Blanchard's staff, of course, and we appreciate your being here today.

TESTIMONY OF MARC SANTUCCI, ADVISOR ON AUTO TRADE ISSUES TO THE GOVERNOR OF MICHIGAN [1]

Mr. SANTUCCI. Thank you, Senator.

In your letter of invitation, you asked that I comment on a number of issues, including the views and interests in the automotive sector. I am happy to do that.

I represent the State of Michigan on issues related to the Free Trade Agreement. Although I have worked with each major interest in the automotive sector, in my brief time I cannot do justice to the totality of their views. I can only hope to give you a sense of their views and major concerns.

In general, the Free Trade Agreement offers significant benefits to Canada and an improvement over the status quo to the United States. I would like to take a minute and follow up on what I believe Senator Levin's point was with Ambassador Holmer on the question of: Are we better off with the agreement than with the status quo?

Negotiating this agreement gave us a historic opportunity, not a historic agreement. From our perspective, we are not looking to gain at the expense of Canada, but we are looking to have a trading environment that is fair and equitable. The problem I see is that we are constantly saying are we better off with the agreement or with the status quo, the implication being that there is no other alternative.

I would like to harken back to when I would bring back a report card that was not up to my parents' expectations. And if I used the excuse, well, it was better than I got last term, I doubt very much that they would be satisfied with that answer.

I think we are facing the same thing here. It is not is it better than what we operate under, but is what we operate under good enough for us, or is the Free Trade Agreement good enough for us?

Canada has a history of enacting trade-distorting provisions and then negotiating with us where we end up giving up something in order to get them to eliminate something they should not have had to begin with. I think we have just experienced another case of this. We go back to the Auto Pact itself, why it was negotiated. We can look at the FIRA, the national energy program. We are constantly seeing Canada enact laws which discriminate against U.S. companies, and then we see our Government negotiate, get rid of part of it, and claim victory. We end up worse off than before Canada enacted any of this legislation.

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[1] See p. 193 for Mr. Santucci's prepared statement.

In its trade policy, Canada's central focus is to enhance market access and expand exports to the United States. Canada's negotiating objectives were to secure every advantage in expanding its export and enhancing the security of its market access to the U.S., while maintaining some measure of protection for its industries. By contrast, the U.S. objective was to liberalize Canada's trade and investment regime.

In my view, Canada's achievements of its objectives are more real than we perceive, while achievement of U.S. objectives are more perceived than real.

In the automotive sector, the benefits over the status quo may or may not outweigh the cost. It depends on the final interpretation of certain provisions, and absent the FTA, what the U.S. would have done vis-a-vis certain Canadian practices.

The multilateral sourcing aspects of the Auto Pact remain intact along with the Canadian valued added requirements. I think if you were here during the discussion between Senator Levin and Ambassador Holmer, you could see that our own negotiators still do not understand the auto pact and what impact is has on an industry that is extremely important to this country.

According to the administration, only the Big 3 remain eligible for Auto Pact status. However, even they admit that foreign companies can benefit from the Auto Pact by forming joint ventures. In addition, since the Auto Pact will not become part of the Free Trade Agreement, it appears that Canada has no right under the GATT to exclude any other manufacturer from obtaining Auto Pact status if those manufacturers meet the Canadian requirements. My fear is that 3 years down the road, Honda and Canada may meet the Auto Pact requirements and ask for Auto Pact status. Canada will then give them Auto Pact status, stating that because of their GATT obligations they have no other choice. The United States will then say, well, there is nothing we can do about it. Do we want to scuttle the whole agreement just because Honda now has access to the Auto Pact? And yet they are here telling us one of the major benefits is that Honda does not have access to the Auto pact.

U.S.-owned auto companies will continue to benefit from and were in favor of the Auto Pact's continuation. At the same time, U.S.-based suppliers will continue to be at a disadvantage vis-a-vis their Canadian counterparts. The suppliers sought to end or change the Auto Pact or replace it with the Free Trade Agreement. The FTA discriminates against foreign-owned auto manufacturers and, thus, they oppose this part of the agreement.

The administration feels it has resolved the duty remission program. In my opinion, this reflects a basic ignorance on the administration's part as to how business is transacted in the auto industry. By allowing third country export remissions to continue for 10 years, the administration has provided Canadian suppliers a 9 percent subsidy over U.S. suppliers. In an industry known for razor thin margins, this is likely to put our suppliers at an insurmountable disadvantage vis-a-vis Canadian suppliers in those countries.

One example would be Mr. Dexter Baker's company, Air Products. If he supplies Honda Canada or Toyota Canada from his Canadian operation, Honda Canada and Toyota Canada will get a duty remission. If he supplies them from his American operations, that benefit will not be given to Honda Canada or Toyota Canada. If he is lucky enough to get the business from Honda or Toyota, I wonder where the business will originate from—his Canadian operations, if he has them, or his American operations.

To make matters worse, when the production-based duty remission program expires, its effect will linger on for years. The Japanese auto companies in Canada are unlikely to change their suppliers once the program ends, nor are suppliers which built plants in Canada because of the program likely to abandon their plants at that time.

All automotive interests, except for the foreign-owned manufacturers, want an immediate end to the duty remission program. Canadian duties on vehicles and new parts will be phased out over 10 years. Because of the peculiarities of the Auto Pact, vehicles and parts produced in Canada can enter the United States duty free. Vehicles built in the United States by the transplants and U.S. parts destined for the transplants in Canada must wait 10 years for duty-free treatment in Canada.

What that means is the cars that Honda builds in Canada can be shipped here into the United States duty free, right now. The cars that Honda builds in Ohio have to wait 10 years to get duty-free treatment in Canada. We believe that is unfair.

I would imagine that the Big 3 would be mildly opposed to a faster phase-out since it makes vehicles built in the United States by the transplants more competitive in Canada. To the extent that U.S. suppliers see it as a way to increase sales to the transplants in Canada, they would probably favor a quicker phase-out.

Under the new rule of origin, a car can be assembled in the United States or Canada with imported engine, transmission, and brake systems and still be eligible for duty-free treatment. The administration made a big deal over the fact that profits and marketing costs are not included in determining the North American value added. In fact, Ambassador Holmer made that point today.

What they failed to mention is that royalty or other licensing fees are included in the cost of processing. Therefore, Toyota Japan could charge Toyota America or Toyota Canada a stiff royalty for their design and manufacturing technology, and this royalty, which is only a paper transaction benefiting the parent in Japan, would count as North American value added. The Big 3 asked for a 50 percent rule of origin but subsequently stated that they could accept 60 percent. The UAW and the parts maker asked for a much higher number. The State of Michigan also asked for a higher number. The Auto Parts and Accessories Association is concerned that a higher number, in combination with the failure to limit Canadian subsidies, would cause increased investment in Canada by Japanese suppliers.

The rules on direct costs of processing can be used to circumvent our own tariff structure or temporary relief mechanisms. While it is not probable, it is entirely possible under the Free Trade Agreement to assemble a car with little or no North American steel, copper, or aluminum, and still the car could be classified as 100 percent North American content.

For example, if a company in Canada imports its steel from Korea and, through a stamping operation, makes bumpers, fenders, hoods, and other body components, those products are considered Canadian even if they contain less than 50 percent North American value added. This product is shipped to a car assembly plant as a 100 percent North American part. The same thing can be done with other parts as well, thus making the 50 percent number much lower than it appears.

Only Michigan has expressed strong concern on this issue, although I believe the American Iron and Steel Institute is also concerned with this issue.

The issue of Canadian subsidies was not addressed in the Free Trade Agreement. Neither side was willing to negotiate on this point at this time. The Canadian Government is much more generous with its incentives and subsidies. For instance, Magna Corporation, a major Canadian parts producer, derives a significant share of its R&D from the Canadian Government grants and low interest loans. On this issue, the UAW, the APAA and the State of Michigan would like to bring some discipline to subsidies. To the best of my knowledge, neither MEMA nor the Big 3 has expressed a strong opinion on this matter.

One of the most troubling aspects of the negotiation process was the administration's willingness to accept the Canadian contention that most auto issues were non-negotiable. This sends a clear signal to our other trading partners that performance requirements in the auto sector are okay. How can we expect Mexico, Korea, Brazil and others to take us seriously if we allow Canada to continue to maintain for up to 10 years policies which our administration has admitted to being GATT-illegal. This also means that we should not hold out for too much hope that we will fare any better in the future as we negotiate with Canada on these auto industry problems.

Throughout the negotiations and in the ratification process, the administration has taken the line that the agreement as a whole is more important than specific problems. There is no reason to believe that Canada is going to give away any of the safeguards they fought so hard to maintain. The Auto Pact has not been changed in 23 years. If the past is any guide, we should not expect this or any other administration to secure changes in future negotiations with Canada.

The Free Trade Agreement calls for the formation of a panel to review the state of the North American auto industry. Some of the representatives that the administration appoint to this panel should be from auto parts companies that only have U.S. operations. Unlike the multinationals, they are more likely to speak from a U.S. perspective. Another representative should be from one or more than one State Government. States are affected by the agreement more than companies, because unlike companies they cannot move. Yet they are asked to sacrifice for the good of the Nation. At the same time, through State and local taxes, they are responsible for providing basic services to their population.

This gets to a point, once again, that Senator Levin was making with Ambassador Holmer. In some cases, States may suffer for the benefit of the Nation, but there is no provision in there to help those States that suffer. And yet States are responsible for a lot that the Federal Government, for a variety of reasons, is not contributing to. I think it is important that the State view be heard in any panel that is appointed.

Workers should also be represented. Representation should reflect the diverse nature of our work force. We should also have representatives from the automakers and the multinational parts companies. They make up the bulk of the existing industry and should have a major say in the recommendations of the panel.

Finally, we must also include in some capacity the foreign car and parts-making companies. This may be in the form of associate or observer status. We should take advantage of their knowledge and not ignore their presence in the North American market.

The role of the panel should be to assess ways to make the North American auto industry truly integrated, globally competitive, and free from trade and investment skewing incentives and performance requirements. The panel should also consider a 60 percent rule of origin, although we should not be overly optimistic that by itself the panel can produce this end.

I hope my comments and recommendations will be useful to the Committee. The ratification process in the enabling legislation offers us our best opportunity to address these concerns. Because of the dynamic nature of the business, the Free Trade Agreement will affect the auto industry in North America in ways that none of us can now predict.

Thank you.

Chairman GLENN. Thank you very much, Mr. Santucci.

Mr. Baker, go ahead.

TESTIMONY OF DEXTER BAKER, CHAIRMAN OF THE BOARD, AIR PRODUCTS AND CHEMICALS, INC.

Mr. BAKER. Thank you, Mr. Chairman. Nice to see you again, sir.

Chairman GLENN. Thank you. Good to see you.

Mr. BAKER. You may recall that we had the pleasure of your addressing our group in Allentown.

Chairman GLENN. Indeed, I was recalling that when Senator Heinz was making his comments a few moments ago. I enjoyed that meeting very much.

Mr. BAKER. You won a lot of votes that day, but unfortunately not enough, actually. [Laughter.]

As John has indicated, I am the Chairman of the Board and Chief Executive Officer of Air Products and Chemicals. I appear before you today as the Chemical Industry Trade Advisor. The Office of the Chemical Industry Trade Advisor, which we call OCITA, is a coalition of the Chemical Manufacturers Association, the National Agricultural Chemicals Association, the Synthetic Organic Chemicals Manufacturers Association and the Society of the Plastics Industries. On their collective behalf, we do support the United States-Canada Free Trade Agreement.

In March 1986, when President Reagan notified Congress of his intent to enter into an FTA, OCITA developed and identified a list of nine priorities that they would like to see incorporated in this agreement. We then submitted to the Finance Committee of the Senate in March of 1986 a copy of those priorities, and a copy of that statement is attached to our formal presentation to our minutes today.

After a close analysis of the negotiated FTA with the nine priorities that we listed, OCITA believes that although not all of these priorities were fully resolved in the FTA, the two Governments are committed to work towards finding agreeable solutions to the unresolved issues. We believe these incomplete or unresolved issues should be pursued, but their lack of resolution should not prevent the Congress from favorably responding to this historic opportunity.

Today, Canada is a primary destination for chemical industry exports. More than 12 percent of U.S. chemical exports, amounting to some $3.2 billion worth, are sent to Canada each year. Bilateral trade is a large and important part of our commercial relationships with Canada, and last year total two-way chemical trade exceeded $6.3 billion.

While the U.S. overall has a trade deficit in manufacturing goods with Canada, the United States chemical trade balance with Canada has turned slightly positive in the last year, and now we run a surplus of about $226 million. This has shown steady improvement over the last 4 years.

OCITA believes that the FTA will advance the economic interests of the United States and will benefit the U.S. chemical industry as well. In particular, OCITA believes that the FTA provisions on tariff reductions and investments will provide a net benefit to both U.S. producers and consumers. Accordingly, OCITA is pleased to give its support to the FTA and hopes that the 100th Congress will approve the necessary implementing legislation so that the FTA can go into effect as of January 1, 1989.

Now let me talk about some of these priority issues.

In the energy area, OCITA is pleased that the FTA provides for unrestricted and secure energy market access and the elimination of the two-tier pricing and the prohibition of import/export taxes and fees. These provisions will allow for greater excess to hydrocarbon supplies that our chemical industry uses both for its energy and raw material requirements. The FTA also will provide for improved opportunities for consultation on energy sector disputes which may arise.

With regard to rules of origin, OCITA believes that the rules of origin will substantially reduce—not eliminate but will reduce—the opportunity for third country chemical imports by the way of Canada to receive preferential duty treatment under the United States-Canadian FTA. The rules of origin from our perspective seem to be fair and effective.

With regard to tariffs, assuming that Canada meets its non-tariff barrier obligations under the FTA, OCITA believes that the proposed schedule of tariff eliminations covering chemical products under Article 401 of the FTA are acceptable. In fact, we believe that almost 90 percent of those tariff barriers will be eliminated during the first 5 years of the agreement.

We urge the Congress to ensure that the implementing legislation established appropriate procedures for consultations which facilitate further progress towards the key objective of the agreement, which is the elimination of tariff barriers between Canada and the United States, and to do that as rapidly as possible. Such procedures, however, should require direct private sector initiatives. In that I agree with Mr. Santucci that the private sector should play a role on these key panels so that their knowledge and expertise can be brought to bear in the formulation of the rules of the game.

With regard to investment, OCITA urges the elimination of all investment restrictions through the FTA. While the agreement is a step in the right direction, we hope that our Government will continue to seek an environment of no investment reviews except for instances of national security interest. The maximum threshold level of $150 million Canadian for the elimination of Canadian review of direct acquisition will still affect a substantial number of potential investment opportunities in the chemical sector. However, the reduction of the existing restrictions and the related performance requirements will significantly liberalize Canadian investment review policies, enhance freer flow of capital, and guarantee that future Canadian Governments do not return to more restrictive investment practices of the past. We hope that the implementing legislation will encourage further negotiation in the investments area towards the achievement of an unrestrictive and predictable foreign investment climate in Canada.

OCITA finds that the provisions on safeguards, dispute resolution and bi-national panels to be fair and workable with respect to disputes arising under the FTA. However, some aspects of these provisions should not be used as a model for future bilateral trade agreements. And we have outlined our recommendations for future consideration in our written statements.

The FTA's bi-national panel procedures dealing with anti-dumping and countervailing duty determinations are a short-term solution for a very difficult problem area. OCITA urges the Congress to specify private sector involvement in this process, and specifically, OCITA urges that non-Government experts—preferably drawn from the affected industries—be eligible for selection to the panels providing advise.

As you know, the U.S. trade process involved a high number of private sector people interacting with the USTR.

In the intellectual property area, intellectual property protection is important to the chemical industry. Our success as an industry is predicated on our substantial research and development activities. The U.S. offers Canadian investors strong intellectual property protection, and we must continue to press for similar protection in Canada. I think OCITA is disappointed that the United States and Canada were unable to agree about an intellectual property protection in the FTA. They have essentially left the intellectual property negotiations to the Uruguay Round of negotiations. OCITA believes that provisions for favorable safeguards of intellectual property will be minimized if left solely to consideration in a multi-national framework. There are just too many countries that are a member of the GATT that do not have a vested interest in protecting intellectual property rights. Therefore, OCITA urges the U.S. Government to negotiate a substantive intellectual property agreement with Canada in early future bilateral negotiations, while at the same time working on a parallel course to try to develop the very best we can in the Uruguay Round. A standstill agreement, as in the investment provisions of the FTA, would be a good start for negotiations on intellectual property.

Now, with regard to subsidies, although the U.S. has not pursued any countervailing duty cases against Canada on chemical products, OCITA does believe that direct and indirect Federal and provincial subsidies have been given to the Canadian chemical manufacturers. We know that the FTA contains no substantive provisions regarding subsidies, other than to establish a working group under Article 1907 to consider "rules and disciplines concerning the use of government subsidies." OCITA believes that the FTA implementing legislation should provide specific objectives with a timetable for the U.S. members of the working group which would include, at a minimum, a definition of an actionable subsidy and what type of remedy and/or compensation is available if an actionable subsidy is employed. Furthermore, OCITA urges that the implementing legislation require that private sector advice be sought throughout the process, along with transparency in the procedural workings of the subsidies group.

OCITA supports full implementation of the FTA. We believe the opportunities and benefits outweigh its shortcomings. The proposed FTA agreement represents a good beginning towards an eventual full and open trading and investment climate between our two countries. We look forward to future U.S.-Canadian negotiations in those areas where further development is needed or intended as is indicated in certain FTA provisions. OCITA will work with the Congress and the administration to secure expeditious enactment of the appropriate enabling legislation for this historic free trade opportunity.

Thank you, Mr. Chairman.

Chairman GLENN. Thank you, Mr. Baker.

Mr. Collins.

TESTIMONY OF JAMES F. COLLINS, PRESIDENT, NATIONAL STEEL PRODUCERS ASSOCIATION [1]

Mr. COLLINS. Thank you, Mr. Chairman. As the last witness here today. I will try to be brief.

The phasing out of steel tariffs between Canada and the United States under the agreement should be beneficial to U.S. steel producers, since U.S. steel import duties are only a little more than half of those of Canada. Moreover, transshipped steel from other countries will not be accorded duty-free treatment when entering the United States from Canada unless further fabricated, which is also beneficial to U.S. producers.

One point I did not cover in my statement is that the electric furnace steel producers of the United States are intensely interested in Canadian hydro power. The wheeling of Canadian hydro power across the border into the United States could be highly beneficial to all northern tier industrial electricity consumers. Canada has probably the lowest industrial electricity costs of the developed countries. The United States has among the highest, substantially higher than Europe and about twice that of Canada.

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[1] See p. 217 for Mr. Collins' prepared statement.

The possibility of access to Canadian hydro power would be highly beneficial to the American manufacturing establishment. The electric utility industry of the United States need not fear this, in our judgment, in that it will render American manufacturing industries that consume electric power much more competitive in world markets and create a larger market for the use of electricity, through the increased production and consumption of electricity by U.S. industrial consumers.

We have two problems that are associated with the Canadian-United States Trade Agreement. One is the issue of the steel VRA's, voluntary restraint agreements, in which Canada is not a participant. The other is the question of the currency relationship which was brought up earlier in the hearing today.

As background to the currency problem, I briefly wish to mention some data. Canada achieved a cumulative surplus with all countries of approximately $72 billion during the 6 years, 1982 to 1987, when the United States was running a merchandise trade deficit of $642 billion. In regard to the balance on current account, which covers merchandise trade as well as services and transfer payments, Canada had a deficit of $7.4 billion during that period when the United States was running a $580 billion deficit on current account.

In regard to the bilateral accounts between Canada and the United States, during 1982 to 1987, the United States incurred a cumulative deficit in its merchandise trade with Canada amounting to approximately $80.1 billion and a cumulative deficit on current account of almost $16 billion. The fact that the bilateral trade and current accounts of Canada and the United States did not produce a greater increase in the value of the Canadian dollar versus the U.S. dollar, particularly during the 3 years, 1984 through 1986, is certainly worth further study.

Clearly, high U.S. interest rates, triggered by the massive U.S. fiscal deficit, had something to do with this. Canada's domestic policies may have also contributed. However, the fundamentals between the two countries—that is, the trade account and the current account balances—have led many to conclude that the Canadian dollar, during period, 1983 to 1986, was under-valued against the U.S. currency.

In nominal, non-inflation adjusted terms, the Canadian dollar value has, on average, been about 27 percent below the value of the U.S. dollar since 1980. Under the well-known Morgan Guarantee index of real effective exchange rates, which adjust for differentials in national inflation rates, the Canadian dollar, in 1984–1986, was about 18 index points lower in value than the U.S. dollar, despite Canada's surplus with the United States of $45 billion on merchandise trade and $15 billion on current account, during those years.

In 1987, however—and I believe some prior witness mentioned this—the Canadian dollar and the United States dollar did move into parity in terms of real effective exchange rates. However, the very slow adjustment of the two currencies to a more realistic level in 1987, taking a full 3 years to reflect the fundamentals in the national accounts of the two countries, should be of intense concern. It demonstrates how national policies can impede the operation of the market forces adjustment mechanism supposedly inherent in a flexible exchange rate system, causing trade in this case to flow in the wrong direction.

But an effectively operating exchange rate is the only basis upon which to build an enduring free trade relationship between the two countries. To date, the official position of both Governments is that exchange rate relationships should be considered only in a multilateral context. Yet within its own trade union, the European Community has developed the European monetary system.

If the United States and Canada conclude a free trade agreement, there should be no impediment to regular bilateral consultations on the effectiveness of the exchange rate relationship and on the domestic policies which affect that relationship. The European Community has been doing it for many years in its customs union, and we do not see why this could not be done—not necessarily within the framework of the United States/Canada Agreement, but outside of it.

As to steel trade, which is of concern to our members, Canada is not, as I said, a part of the VRA program. Its dollar value of steel exports to the United States has about doubled, rising from $402 million in 1982 to $1 billion in 1987, and its tonnage has doubled, from about 1.5 million tons in 1982, to about 3.2 million tons in 1987.

As we are all aware, the voluntary restraint agreements on steel were bilaterally negotiated outside the jurisdiction of GATT; so were similar steel import limitation programs of several other countries, including the steel import and minimum price limitations of the European Community.

All GATT member nations limiting steel imports take the position that their steel import limitation programs are consistent with GATT Article 6, which covers anti-dumping and anti-subsidy provisions, and Article 19, which permits import limitations to remedy injury—which, incidentally, was the basis upon which the U.S. Government imposed the VRA's, which stem from a Section 201 case brought by Bethlehem Steel Corporation and the United Steelworkers, leading to the imposition of the VRA's by President Reagan. This was a trade case to remedy injury, not an unfair trade case.

However, the omission of Canada from participation in the steel VRA's appears to be inconsistent with GATT Article 13 embodying the most-favored-nation principle of non-discrimination among trading partners, a principle to which the United States has always subscribed. Imports of VRA signatories have been reduced, and it is discriminatory treatment of those Governments cooperating in the VRA program for the U.S. Government to permit an increase in Canada's U.S. steel market share during this period.

In making this point, we do not want to imply that the Canadian steel producers are unfair traders. By and large, they are exceedingly competent, highly competitive fair traders in steel. But in a world in which most of the international trade in steel is distorted by Government policies, some fair trading countries nonetheless are signatories to the VRA program. Therefore, Canada should not be the only major steel trading nation exempted from the VRA provisions designed to effect the adjustment of the U.S. steel industry. It should participate in the VRA program.

The concept of a United States-Canada Free Trade Agreement, a common market in North America from the Mexican border to the northernmost regions of Canada is most appealing to us. Accordingly, the NSPA supports the proposed United States-Canada trade agreement, but we believe that such an agreement will succeed over the long term only if it is based upon a sound exchange rate relationship. Therefore, we urge the Senate to ask the Administration to explore with Canadian officials the possible establishment of a bilateral consultations group meeting regularly to review currency and other policy issues affecting currency relationships, in order to avoid impediments to an enduring free trade relationship between the two countries. This is bound to occur eventually, in our judgment, if the relationship is to succeed. And why not now rather than later?

Thank you, Mr. Chairman.

Chairman **Glenn**. Good. Thank you very much.

It is late and you gentlemen have been very patient this afternoon. We all have some other commitments yet today, so I will be brief here, and we will submit additional questions to you that will be included in the record. We appreciate your sticking with us this afternoon here.

I have a couple of questions. Through the whole hearing this afternoon, we have had a number of comments about how the specific provisons of the FTA are to be implemented, what details are yet to be worked out, and how the various committee advisory groups and to be put together. It gives me some concern as to whether we really have this agreement negotiated out as completely as it should be for it to go into effect.

Do you have concerns in that area, any of you? Mr. Baker.

Mr. **Baker**. Well, I think that the process itself does provide for the establishment of panels and consultation groups as an ongoing mechanism of dealing with individual issues. I think the point that we are making there is that those panels ought to have the benefit of industrial input in the deliberation of the gives and takes that have to be made to streamline the process and make the process workable, and that they should not just be made up of Government people who are not directly involved in the day-to-day workings of the trade between the two countries.

So that, we think, is a very important provision.

Chairman **Glenn**. Who else? Mr. Santucci, go ahead.

Mr. **Santucci**. I think you have to look at it realistically. I agree with what you said, but I do not think this Congress would at this point in time tell the administration to go back to the negotiating table.

What I think we would like to see is enabling legislation which may take care of the some of the concerns that are outstanding. I think one of the problems is this negotiation, in effect, took place over a weekend. There were a lot of issues that we were not prepared for and the Canadians were, and the question now becomes:

Do we use this opportunity of the hearing and markup process to do what should have been done 6 months ago? What I would say is I would hope that Congress would take the responsibility that was forfeited by the administration and really seriously look at the implications and various effects of this agreement.

Chairman **Glenn**. Ashley, you commented on the power and the energy needs of the whole Nation. We probably get cheaper power from Canada. The FTA will have a couple of impacts on us; it would have an impact on the coal industry and on imported oil, perhaps. Hydro-Quebec, you state, has been notoriously unreliable in serving its native load customers, Canadian customers. Is it reliable enough that we want to depend on it?

Mr. **Brown**. Well, I think that is an excellent question, Senator.

Chairman **Glenn**. That is also a question for Mr. Collins because he was talking about bringing imported power into the steel industry for its electric furnaces.

Mr. **Brown**. In fact, if I could, I would like to respond to a point that Mr. Collins made. But I think you made an excellent point.

As you know, the Province of Quebec was largely blacked out just a couple of weeks ago, and Hydro-Quebec's reliability record is not one to be envied or copied.

Chairman **Glenn**. We may not be a good example ourselves. We had the whole East Coast go down a few years back, too, if you remember.

Mr. **Brown**. Well, that is true. But what is curious is, as part of the resolution to that, Congress mandated that we set up the reliability regions, and Hydro-Quebec is not inter-connected for the most part, other than some DC interties. It is not inter-connected with the rest of North America. Ontario, for example, is.

One of the points I think that is really critical, and that is that we ought not be seduced by some short-term benefits. Mr. Collins alluded to the fact the Canadian hydro may be less expensive today. I think that is true, although it is curious that we do not get all the benefits of that low cost production because the Canadians tend to price at our avoided cost. So it is our cost structure, not the Canadian cost structure, that sets the price for electricity. Although the Free Trade Agreement, as I indicated, eliminates the Canadian requirement that be the case, there is absolutely nothing to preclude the Canadians from continuing to price that way.

The problem is, unless we develop a long-term competitive market, there is no reason to think that the Canadians—in fact, they would be foolish to voluntarily reduce their pricing scheme in order to give U.S. customers benefits. And I think we need to think in terms of long-term infrastructure; otherwise, the short-term benefits are going to turn into a long-term detriment.

Chairman **Glenn**. Mr. Collins, do you have any comment on that?

Mr. **Collins**. Well, just as imports forced the American steel industry to be a little introspective about its cost structure and competitive capability, it is entirely possible that with all that huge potential of undeveloped hydro power in Canada that it would be beneficial both to American manufacturing consumers of electricity to have access to that, and also for the longer term, it could be beneficial to the public utilities of the United States. In addition, the question does arise: How will the United States fare for the longer term in regard to all its power requirements from all sources?

It is pretty common knowledge that we face a major crisis in energy units moving into the 1990's, and we should be considering and pressing Canada to provide cheap hydro power to the upper tier of the United States as one of the solutions to that problem.

Chairman GLENN. Well, developing a long-term competitive electric power market in this country, and what is going to drive that, of course, is a separate issue. The FTA is independent from that.

Gentlemen, thank you. We are going to have to end now, and we would appreciate your response to any questions we might send. It is good to have you here, and we appreciate your forbearance with us this afternoon. Thank you.

Mr. BROWN. Thank you.

Mr. SANTUCCI. Thank you.

Mr. BAKER. Thank you.

Mr. COLLINS. Thank you.

Chairman GLENN. The hearing will stand in recess subject to the call of the Chair.

[Whereupon, at 4:40 p.m., the Committee adjourned subject to the call of the Chair.]

APPENDIX

TESTIMONY OF
AMBASSADOR ALAN F. HOLMER
BEFORE THE
COMMITTEE ON GOVERNMENTAL AFFAIRS
MAY 9, 1988

Thank you for the opportunity to testify before you today on the U.S.-Canada Free Trade Agreement.

Almost two years of intensive, and sometimes contentious, negotiations culminated on January 2 when President Reagan and Prime Minister Mulroney signed the Free Trade Agreement. It is all too easy, especially in politics, to use hyperbole. But it is no exaggeration to say that this is a truly historic document. I believe that the Agreement is as significant in the economic sphere as the arms control agreement signed last December is in the national security arena. It will probably be another generation before its true significance can be fully appreciated.

Trade between the United States and Canada too often is taken for granted. Our trade problems with Japan and the European Community are so much in the spotlight that most Americans still don't realize Canada is our biggest trading partner. Yet over $150 billion in goods and services cross our common border annually. With $55 billion in exports in 1986, Canada is our largest and fastest growing export market.

These negotiations were characterized by hard bargaining and difficult compromises. Many will seek to identify winners and losers, but that approach is too narrow. This is a win-win Agreement. It should result in increased economic activity, higher trade levels, more jobs, and enhanced competitiveness for both the United States and Canada. The people of both countries will benefit from this Agreement, through lower prices and greater consumer choice.

Practical experience with customs unions and free trade areas affirms what the economists tell us in theory: as barriers are reduced, all parties benefit. The European Common Market and the Australia-New Zealand Free Trade Area, for example, created higher levels of economic activity and productivity -- and neither side lost its sovereignty or its national identity.

The U.S.-Canada Free Trade Agreement is the most comprehensive trade agreement ever negotiated. As the world's largest trading partners we are constructing the world's largest shared market. We have submitted to the Committee today an extensive summary of the Agreement. Therefore, in my formal testimony I will only highlight its main provisions, while focussing in greater detail on the government procurement provisions.

Under the Agreement, we have eliminated all tariffs between the United States and Canada, without exceptions. Since Canadian tariffs are, on average, twice as high as comparable U.S. rates, total tariff elimination will provide significant benefits for the U.S. exporter.

For the first time since services became a major international commercial issue, two major trading partners have negotiated an agreement establishing rules for bilateral trade in services. These rules will cover over 150 service sectors, such as enhanced telecommunications, architecture, accounting, tourism, insurance, and engineering. Not only is this important for U.S.-Canada services trade, but it provides a concrete first step for our efforts to formulate multilateral rules for services at the GATT Uruguay Round. We also concluded the first bilateral agreement with any other country covering the entire financial sector.

We are establishing much freer and more secure trade in energy. The Agreement calls for nondiscriminatory access for the United States to Canadian energy supplies and secure market access for Canadian energy exports to the United States. Energy prices will be determined by markets, not by governments. This means that the Canadian Government will not be able to impose higher prices on us than they charge Canadians. Cheaper and more secure energy supplies will make U.S. industries more competitive, both in North America and throughout the world.

Also for the first time, the United States and Canada have agreed to rules governing bilateral investment activities. The Agreement reduces the screening of U.S. investment in Canada, and moves Canada towards a more open, market-oriented investment environment.

The question of how to apply countervailing duty and antidumping laws was one of the most difficult to settle. We finally agreed to retain existing national laws and procedures dealing with subsidies and dumping. But final decisions taken under those laws may be appealed to binational dispute settlement panels upon the request of either party.

Both the United States and Canada recognize the continued importance of automotive trade and production for our respective economies. In order to help ensure that the industry in both countries should prosper in the future, the FTA establishes a select binational panel to assess the state of the North American industry. This panel will propose public policy measures and private initiatives to improve its competitiveness in domestic and foreign markets.

There are also provisions covering agriculture, alcoholic beverages, customs matters, government procurement, product standards, personnel movement, and many other areas.

The Government Procurement Chapter of the U.S.-Canada Free Trade Agreement extends reciprocal government procurement liberalization farther than any prior agreement covering both civilian and military goods. By extending and improving the disciplines of the GATT Agreement on Government Procurement (the "Code"), it provides substantially more opportunities for the sale of U.S. goods (and services incidental to the sale of goods) to the Canadian Government. It also sets the stage for further multilateral and bilateral negotiations aimed at eliminating remaining discriminatory procurement policies.

While the Code continues to govern procurement by specified U.S. and Canadian Government agencies over the threshold of currently $156,000, the FTA will cover such procurements over $25,000 and below the Code threshold. In fact, the FTA doubles the number of opportunities in Canada open to U.S. suppliers on non-discriminatory terms.

For the United States, the FTA requires only one change in current domestic law, to lower the threshold (for Canada alone) established in the Trade Agreements Act of 1979. This is because there is no other change in the Code's scope, in terms of either covered entities or purchases. For example, procurement areas excepted from Code coverage--such as minority and small business set asides, procurements by the Departments of Energy and Transportation, State and local government purchases, USDA purchases for farm support and human feeding programs, "Berry Amendment" types of restrictions on DOD purchases, and cargo transportation preferences--are likewise excepted under the FTA.

In Canada, approximately $500 million in additional procurement opportunities will be opened to U.S. suppliers. Canadian entities covered by the Code have traditionally procured the majority of their purchases below the Code threshold. Since the reverse is true in the United States, Canadian covered entities are opening up proportionately more than U.S. covered entities. In the U.S., approximately $3 billion in procurement (of $200 billion total U.S. Government procurement) is opened to Canadian suppliers. But approximately 80 percent of that amount is already open to Canadian suppliers under our bilateral defense agreements. The remainder is also open to Canadian suppliers, but subject to the Buy American preferences.

Perhaps most important in the long-run are the qualitative improvements on the Code agreed by Canada and the United States regarding procurement procedures. The FTA tightens the rules governing eligibility for bidding, thus eliminating Canada's discriminatory rationalization program for covered procurements. This change precludes Canada from requiring U.S. suppliers to invest in Canada or to guarantee a certain level of exports, technology transfer, profit repatriation, or Canadian content to be able to bid on a covered procurement. Moreover, the FTA uses the same kind of rule of origin established in our Buy America law. Under this rule, products qualifying for FTA treatment must be manufactured in Canada or the U.S. and contain at least 50 percent content from either or both countries. These are the only limitations on eligibility for benefits under the FTA's chapter on government procurement.

The FTA also establishes an effective challenge system. In the U.S., the General Accounting Office already adjudicates complaints by suppliers; but in Canada, no comparable system currently exists. For the first time, Canada will reciprocally establish a system to impartially resolve supplier complaints about FTA covered procurements.

Finally, we obtained Canada's commitment to multilateral liberalization of procurement markets as our top priority. We agreed that we will return to the FTA bilateral negotiating table only after completing the multilateral renegotiations of the Code. We share our industries' views that the greatest potential for benefits to U.S. commerce lies in multilateral government procurement concessions from many other countries.

For these reasons, the Government Procurement Chapter of the FTA is one of the many, many pluses for the United States and Canada in this historic Agreement.

The government procurement provisions, as well as all other elements of the Agreement, are described in detail in the summary we've submitted to the Committee today.

The proposed Agreement spans many sectors of our economies. We expect numerous industries and groups to mobilize strong support. Nonetheless, we recognize that, despite widespread enthusiasm for this Agreement, some may disagree. For some, there may be too much free trade in this Free Trade Agreement. Some special interests will see themselves as vulnerable to increased competition in a free trade area. Others may be timid, afraid to try a creative approach to the future, fearful of the unknown, thinking that no change means no risk. Yet in this dynamic, interdependent world of ours, the future inevitably holds risks, and the status quo is never sustainable. To do nothing is to retrogress.

Then there are those who are disappointed because they wanted more and wanted it now. Unfortunately, some entered these negotiations with unrealistic expectations that the negotiations would cure all their ills. This Agreement is not a panacea for every ill. It will reduce, but not end, trade frictions. It will minimize, but not eliminate, trade distortions. There never has been, and likely never will be, perfectly free trade between any two independent sovereign countries. But this Agreement was never intended to solve all our bilateral trade problems and should not be expected to do so. By establishing dispute resolution and consultation mechanisms, the agreement explicitly recognizes this fact. It is a vast improvement over the prevailing situation, and a bold step toward significantly freer trade between our countries. It is a massive advancement over the status quo. The question on both sides of the border should be "will this Agreement make my country a better and more prosperous place to live a decade or a half century from now?" The objective answer to that question will be a resounding yes!

Failure to implement this Agreement would have very negative repercussions for both countries. The United States and Canada would clearly miss out on a once-in-a-century opportunity. We would be deprived of the enormous economic gains which will come from this Agreement as well as the intangible benefits of developing an even closer relationship with our friendly neighbors to the north.

Failure would provoke recriminations, hard feelings, and perhaps more trade frictions. It would be self-destructive for both of us.

Finally, rejection of this Agreement would send the wrong signal to the rest of the world. We would lose the impetus it gives to the new GATT round, on which both the United States and Canada count so heavily for more discipline over trade in goods and for international recognition of the need to incorporate into the GATT multilateral discipline on trade-related investment measures, intellectual property protection, and services. If the United States and Canada -- the two largest trading partners in the world, next door neighbors, the closest of friends and allies--cannot liberalize their trading relationship, what hope do we have of success in Geneva?

We should approve this Agreement and then build on it in the future. It will, without doubt, be the most significant bilateral trade agreement either country has ever negotiated.

OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

SUMMARY OF
THE U.S.-CANADA FREE TRADE AGREEMENT

February 1988

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THE WHITE HOUSE

Office of the Press Secretary
(Palm Springs, California)

January 2, 1988

STATEMENT BY THE PRESIDENT

I am pleased to announce that Prime Minister Mulroney and I have today entered into an agreement to establish a free trade arrangement between the United States and Canada.

In the truest sense, this is an historic agreement for both sides. We will strengthen what is already a deep friendship between our people by enhancing economic opportunities and creating jobs in both countries. Moreover, the agreement firmly establishes that the trade environment between the two countries will in the future be founded on the principle of free and open trade.

This comprehensive agreement will benefit many sectors of the U.S. economy. Canadian and American tariffs will be phased out completely, saving consumers hundreds of millions of dollars while also improving our export opportunities. It will secure access to Canada's market for American manufacturing, agriculture, financial services, and high technology; improve national security through energy sharing; and provide important investment opportunities. Canada will benefit from the agreement in many of these same ways; the pact is truly reciprocal. As the agreement goes into effect, Canada's access to our large domestic market will grow, and Canadian industrial centers will gain opportunities to develop even more important roles in the economy of North America.

The agreement to establish a free trade area has important international implications as well. It will encourage supporters of free trade throughout the world by demonstrating that governments can remove trade barriers even in the face of protectionist pressures. We hope that the U.S.-Canada example will help set the tone for the Uruguay Round multilateral trade negotiations.

Our negotiations with the Canadian government leading to this agreement incorporated advice from Congress, industry, agriculture, and labor. Our Congress, as well as the Canadian Parliament, will review the agreement fully over the next several months. As this process begins, both sides should be mindful that the decisions they make will help shape the relationship between our

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countries in the years to come, and will send a signal to the rest of the world.

The creation of the world's largest free trade area will be a mark of leadership and presents an historic opportunity to the United States and Canada. We must not let this opportunity slip from our grasp.

# # #

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release January 2, 1988

FACT SHEET

U.S.-CANADA FREE TRADE AGREEMENT

The United States and Canada have entered into a free trade agreement that, if approved and implemented, will take effect on January 1, 1989. The agreement will:

- Eliminate all tariffs on bilateral goods trade within 10 years of implementation;
- Reduce nontariff trade barriers;
- Establish principles for the conduct of bilateral trade in services;
- Establish rules for the conduct of bilateral investment;
- Resolve many outstanding bilateral trade issues;
- Enhance the energy and national security of the two countries;
- Facilitate business travel; and
- Establish a timely bilateral dispute settlement mechanism.

Economic Implications

Each year the U.S. and Canada exchange more goods and services than any two countries in the world. Bilateral trade in goods and services exceeded $150 billion in 1986.

The elimination of tariffs and most other barriers to trade between the two countries will increase economic growth, lower prices, expand employment and enhance the competitiveness of both countries in the world marketplace.

Chronology of the Negotiation

- In March 1985, President Reagan and Prime Minister Mulroney asked their trade officials to explore ways to reduce and

MORE

eliminate existing barriers to trade between the U.S. and Canada.

- On September 26, 1985, Prime Minister Mulroney formally requested that the U.S. and Canada examine the potential for negotiating a comprehensive free trade agreement.
- On December 10, 1985, President Reagan notified the Congress of his intent to enter into bilateral negotiations with Canada using "fast track" procedures.
- On June 17, 1986, U.S. and Canadian negotiators on the free trade area met for the first time in Ottawa.
- On October 3, 1987, President Reagan notified Congress of his intent to enter into a free trade agreement with Canada.
- On December 9, 1987, U.S. and Canadian negotiators initialled a final text of the agreement.
- On January 2, 1988, President Reagan and Prime Minister Mulroney signed the final text of the agreement.

The Fast Track

Section 102 of the Trade Act of 1974 authorizes the President to enter into bilateral free trade agreements and to have the Congress approve them on a "fast track" basis. Section 102 authority expires at midnight on January 2, 1988.

In order for a bilateral agreement to qualify for fast track consideration, several conditions must be met:

- The negotiation must be requested by the foreign country;
- The President must notify the House Ways and Means and Senate Finance Committees of the negotiations, giving them 60 legislative days advance notice:
- The President must notify the Congress of his intent to enter into an agreement 90 days before doing so.

After entering into an agreement, the President must submit it to Congress, along with a draft implementing bill, a statement of any administrative action proposed to implement the agreement, an explanation of how the bill or statement changes or affects existing law and a statement of reasons why the agreement serves the interests of U.S. commerce and why the bill and proposed action are required and appropriate.

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The implementing bill is introduced in both Houses of Congress on the day it is submitted and is referred to the committees of jurisdiction. House committees have 45 days in which the House is in session to report the bill; they are discharged automatically from further consideration after that period. The House votes within 15 days in session after the measure has been received from the House committees.

After receiving the bill from the House, the Senate committees have 15 days in which the Senate is in session to report the bill; they are discharged automatically from further consideration after that period. The Senate votes within 15 days in session after the measure has been received from the Senate committees.

Amendments to the bill are not in order. A simple majority of each House is required for approval.

# # #

BRIEF SUMMARY OF KEY FTA PROVISIONS

- Tariffs: Eliminates all tariffs on U.S. and Canadian goods by 1998.
- Rule of origin: Uses a rule of origin to prevent third country goods from receiving FTA tariff treatment.
- Customs: Ends customs user fees for goods and duty drawback programs by 1994 for bilateral trade and duty waivers linked to performance requirements by 1998 (except for the Auto Pact).
- Quotas: Eliminates import and export quotas unless allowed by the GATT or grandfathered by the FTA.
- National treatment: Reaffirms GATT principle preventing discrimination against imported goods.
- Standards: Prohibits use of product standards as a trade barrier and provides for national treatment of testing labs and certification bodies.
- Agriculture: Eliminates all bilateral tariffs and export subsidies and limits or eliminates quantitative restrictions on some products, including meat. Eliminates Canadian import licenses for wheat, oats and barley when U.S. crop price supports are equal or less than those in Canada.
- Wine and Distilled Spirits: Removes most discriminatory practices against wine or spirits imported from the other country.
- Energy: Prohibits most import and export restrictions on energy goods, including minimum export prices. Requires any export quotas used to enforce short supply or conservation measures to share resources proportionately. Provides for Alaskan oil exports of up to 50,000 barrels per day to Canada.
- Autos: Replaces and Canadian content rule for duty-free Auto Pact imports into the U.S. with tougher FTA content rule. (Most auto trade already is duty-free under the U.S.-Canada Auto Pact.) Does not change rules for Auto Pact-qualified companies importing duty-free into Canada, but does not allow new companies to qualify. Permits U.S. auto and parts exports that meet the FTA rule to enter Canada at FTA tariff rates, which phase out over 10 years. Ends all Canadian duty remission programs for autos by 1998.
- Emergency action: Allows temporary import restrictions to protect domestic industries harmed by imports from the other country in limited circumstances.

- Government procurement: Expands the size of government procurement markets that will be open to suppliers from the other country.

- Services: Commits governments not to discriminate against covered service providers of the other country when making future laws or regulations. (Exempts transportation services.)

- Temporary Visas: Facilitates travel for business visitors, investors, traders, professionals and executives transferred intra-company.

- Investment: Provides national treatment for establishment, acquisition, sale and conduct and operation of businesses. (Exempts transportation.) Commits Canada to end review of indirect acquisitions and to raise to C$150 million (in constant 1992 Canadian dollars) the threshold for review of direct acquisitions. Bans imposition of most investment performance requirements.

- Financial Services: Exempts U.S. bank subsidiaries in Canada from Canada's 16 percent ceiling on assets of foreign banks. Ends Canada's foreign ownership restriction on U.S. purchases of shares in federally regulated insurance and trust companies. Reviews U.S. firms' applications for entry into Canadian financial markets on the same basis as Canadian firms' applications. Permits banks in the U.S. to underwrite and deal in debt securities fully backed by the Government of Canada or political subdivisions. Guarantees continuation of multi-state branches of Canadian banks.

- General dispute settlement (except for financial services and countervailing duty and antidumping duty cases): Establishes a binational commission to resolve disagreements.

- CVD/AD dispute settlement (for countervailing and antidumping duties): Allows countries to continue to apply existing national laws. Replaces court review with a binational panel (when requested), which must apply national law in rendering decisions under international law.

- Softwood lumber: Preserves the 1986 agreement with Canada on provincial pricing practices.

- Culture: Exempts cultural industries from the FTA, but authorizes measures of equivalent commercial effect in response to actions otherwise inconsistent with the FTA.

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SUMMARY OF THE AGREEMENT

Preamble

The Preamble to the Agreement describes the two countries' desire to improve their economies, to achieve full employment and increase living standards and to strengthen the competitiveness of both countries' firms in the global marketplace.

PART ONE: OBJECTIVES AND SCOPE

The first part includes chapters setting out the objectives and scope of the Agreement and defining key terms.

Chapter One: Objectives and Scope

The Agreement establishes a free trade area (FTA) consistent with the General Agreement on Tariffs and Trade (GATT), the multilateral agreement governing trade relations between 94 countries.

The objectives of the Agreement are to:

- eliminate barriers to trade in goods and services between the two countries;
- facilitate conditions of fair competition;
- significantly liberalize conditions for investment;
- establish effective procedures to administer the Agreement and resolve disputes;
- and lay the foundation for further bilateral and multilateral cooperation.

The federal governments agree to ensure that state, provincial and local governments take necessary actions in areas under their jurisdiction to implement the Agreement. They establish that the Agreement generally will take precedence over pre-existing agreements, except where specified, and they agree to treat each other's goods, services and investment as they treat their own to the extent provided in the Agreement.

Chapter Two: General Definitions

Words critical to the application of the Agreement are defined.

PART TWO: TRADE IN GOODS

Chapters three through twelve deal with trade in goods, building on the GATT and other agreements. Chapters three through six, eleven and twelve apply to all trade in goods. Chapters seven through ten apply to individual sectors.

Chapter Three: Rules of Origin for Goods

The Agreement will eliminate all tariffs between the U.S. and Canada, but each country will maintain its own tariffs on imports from other countries. Because of the disparities between U.S. and Canadian tariff levels, it is necessary to prevent imports from third countries from being shipped through one FTA partner into the other in order to escape the higher tariff.

Rules of origin are used to define those goods entitled to duty free treatment. Goods wholly produced in either the U.S. or Canada will qualify for FTA treatment. Goods containing imported inputs will qualify if they are processed enough to result in one of several specified changes in tariff classification under the internationally agreed Harmonized System; that is, they must be changed in ways that are physically and commercially significant. In some cases, there is the explicit requirement that at least half of the cost of manufacturing the goods must be attributable to Canadian and/or American materials and/or direct costs of processing. Finally, there is a safeguard provision denying FTA treatment to any goods altered merely to circumvent the rules of origin.

Goods that are further processed in a third country before being shipped to their final destination will not qualify for FTA treatment. For example, goods produced by either U.S.- or Canadian-owned maquiladora operations in Mexico will not qualify.

Apparel made from fabric woven in the U.S. or Canada will be duty-free but apparel made from imported fabric will qualify for FTA treatment only up to the following levels:

	Non-Woolen Apparel	Woolen Apparel
	(in million-square-yard	equivalent)
Imports from Canada	50	6
Imports from the U.S.	10.5	1.1

Non-woolen fabric and made-up textile articles, woven or knitted in Canada from yarn produced or obtained in a third country, will qualify for FTA treatment for three years, but only up to an annual level of 30 million square yards.

The two governments will consult regularly to ensure that the rules of origin are operating effectively and to consider changes to the rules where experience suggests changes may be helpful.

Chapter Four: Border Measures

The central element of a free trade area is the elimination of substantially all tariff and nontariff trade barriers.

Tariffs

All bilateral tariffs will be eliminated in stages by January 1, 1998. The removal of tariffs will increase two-way trade and lower costs to consumers in both countries, thereby creating a single U.S.-Canadian market of 265 million people. Approximately 75 percent of bilateral merchandise trade, currently in excess of $120 billion, already moves free of duty. The remaining 25 percent, however, is subject to tariffs. Canadian tariffs average about 9-10 percent, or about twice the U.S. average of approximately 4-5 percent.

The results of the tariff negotiation are expressed in terms of the new Harmonized System (HS) of tariff nomenclature. (If either country fails to adopt the HS, duties will be eliminated by converting the schedule of reductions back to current tariff schedules.) All dutiable products in the HS were assigned to one of the following three staging categories: (1) immediate elimination; (2) five equal, annual cuts (20 percent per year), and (3) ten equal, annual cuts (10 percent per year). In almost all instances, staging on a particular product is the same in both countries. The stages for various commodities were selected in recognition of the fact that industries in both countries will require varying periods of adjustment to changing competitive conditions.

Import-sensitive industries on both sides of the border were generally accorded 10-year staging, which would result in the duty being eliminated by January 1, 1998. These include plastics, rubber, most wood products, lead, zinc, base metal articles, footwear, textiles and apparel, steel, many alcoholic beverages, consumer appliances, precision instruments, watches and most agricultural and fish products.

Immediate duty elimination is scheduled for such products as automatic data processing and related equipment, certain telecommunications equipment, motorcycles, whiskey and rum, some processed fish, raw hides, leather and furs.

All other duties will be phased out by January 1, 1993. Included within this category are paper, furniture, printed matter, chemicals, after-market automotive parts, precious jewelry, most machines, some musical instruments, and petroleum.

The Agreement provides that tariffs can be reduced faster whenever the two governments agree.

Customs Programs and Procedures

The Agreement eliminates duty drawback for bilateral trade, duty waivers linked to performance requirements (except as provided in the chapter on automotive trade), and the U.S. customs user fee for Canadian merchandise. It authorizes importers and exporters to certify that goods meet the rules set out in the rules of origin chapter and are therefore eligible for FTA tariff treatment. These measures are intended to prevent imports from third countries from benefiting from the FTA.

Duty Drawback: Both countries will end duty drawback on exports to the other as of January 1, 1994, with limited exceptions. Most countries, including the United States and Canada, have duty drawback programs, which provide for the return of duties on imports when they or substituted domestic goods are incorporated in goods subsequently exported. Because of the elimination of bilateral tariffs, continuation of duty drawback between the two parties would allow duty free-entry of third-country imports through the other FTA party and would distort trade and investment decisions.

As an exception to the ban on duty drawback for bilateral trade, the following goods will continue to benefit from the program:

- goods remaining in the same condition on exportation as on importation (but they would not benefit from FTA tariff treatment),
- dutiable goods of the United States or Canada if they are incorporated into, or directly consumed in, the production of goods subsequently exported back to the FTA partner, and
- goods where both parties agree to maintain duty drawback (this category consists of (1) imported citrus products and (2) fabric imported from a third country and made into apparel that is subject to the most-favored-nation (MFN) tariff when exported to the other party).

Also, beginning January 1, 1994, goods withdrawn from a Foreign Trade Zone (FTZ) or benefiting from a similar program will be treated the same whether destined for consumption in the U.S. or Canada. For a good made in a U.S. FTZ, duty must be paid on the value of any foreign components at either the component or the finished-good tariff rate. Maintaining the full benefits of these programs, like duty drawback programs, would have allowed imports from third countries to enter duty-free through the other FTA party and would distort trade and investment.

Duty Waiver: Neither party will introduce new duty waivers or expand existing ones linked to performance requirements after the later of June 30, 1988 or the date of Congressional approval of the Agreement. Existing programs will be eliminated by January 1, 1998. This provision ends the trade-distorting practice of requiring a firm to buy local inputs or to export output in exchange for a tariff exemption.

The 1998 termination date excludes certain waivers affecting automotive trade, as specified in the section on automotive trade. The countries reserve existing rights under other agreements with respect to the Auto Pact or comparable arrangements. This provision maintains the U.S. right to challenge Canadian performance requirements under GATT rules.

If a party can show that a duty waiver to a specific firm granted on a commercial good hurts its commercial interests, then the party granting this waiver must either make it generally available to any importer or end the program. This provision prevents discrimination among firms.

Customs Fees: Starting on January 1, 1990, the U.S. must cut by 20 percent each year the customs user fee on goods qualifying under the rule of origin of the FTA. The fee on Canadian goods will be eliminated as of January 1, 1994. Neither country may introduce new customs user fee programs to pay for the costs of Customs administration on goods from the other country.

Customs Procedures: The Agreement authorizes the governments to require importers to submit a written declaration of origin based on a written declaration of origin provided by the exporter. It requires each country to make it unlawful for the exporter to provide a false certification. False declarations by either the importer or the exporter could be prosecuted by the government of the country in which the offending business is located. This provision will help avoid fraudulent claims of FTA origin to avoid tariffs.

The Agreement also provides for cooperation on enforcement, consultations on uniform application of the rule of origin, review and appeal procedures for decisions on the rule of origin and consultations on major changes affecting customs administration.

Import and Export Restrictions

Import and export quotas and other restrictions can distort trade flows. The elimination of such barriers is essential to an effective free trade area. Unless specifically grandfathered by the Agreement or allowed by the GATT, existing quantitative restrictions will be eliminated immediately or according to a timetable. Some specified restrictions that have been exempt from GATT obligations will be eliminated for trade between the U.S. and Canada.

In all cases where quantitative restrictions are prohibited under the Agreement, use of minimum export prices and minimum import prices (except those used to enforce countervailing duty and antidumping orders) also are prohibited.

Where either country prohibits imports from a third country, it may similarly prohibit the pass-through of imports from that country through the FTA partner. This provision preserves the right to enforce embargoes for foreign policy or other reasons (e.g., embargoes against Cuba or Iran).

Export taxes will not be permitted under the Agreement unless the tax is also levied on goods destined for domestic consumption. In addition, where GATT-permitted export restrictions are applied (such as in the event of a short-supply emergency), the restriction must not reduce the proportion of the good that was exported to the FTA partner relative to the total supply of the good prior to the restriction.

Chapter Five: National Treatment

The Agreement incorporates the GATT requirement that, once imported into either country from the other, goods will not be the object of discrimination. This ensures that the elimination of border measures will not simply be replaced by internal measures favoring domestic goods over imports. This rules out higher sales or excise taxes or regulatory requirements on imports. Discrimination against goods from the other country by provinces or states is prohibited even if a province or a state discriminates against goods from other provinces or states.

Chapter Six: Technical Barriers

There are legitimate public policy objectives for which technical regulations and standards are maintained (e.g., to protect human, animal or plant life or health; to preserve the environment; and to protect essential security interests). However, standards measures may work to inhibit trade.

The Agreement builds on current obligations under the GATT Standards Code not to use standards to hinder trade unnecessarily. Certification and testing facilities will receive nondiscriminatory treatment in both countries. We also agree to work to harmonize our standards where appropriate so that similar products do not have to be made or work in different ways in order to be sold in the other country. Provisions of this chapter do not apply to agricultural goods, which are covered in the chapter on agriculture.

These provisions do not mean that the U.S. will have to adopt the metric system or Canadian standards, or that standards cannot be adopted for legitimate regulatory reasons. The basic rule remains that standards must not create unnecessary obstacles to trade. Obstacles to trade are not created where the demonstrable purpose of standards-related measures is to protect health and safety, environmental, national security and consumer interests. However, such measures must not operate to exclude goods of the other country if they meet these objectives.

Both countries will assure that testing facilities and certification bodies are treated in a nondiscriminatory manner. This paves the way for the recognition by Canadian authorities of U.S. facilities and bodies. This does not require that all testing labs receive accreditation, especially if an individual lab is not qualified in the view of the accrediting authority, but forbids the discrimination against labs on the basis of nationality.

Canada and the United States agree to harmonize (make compatible) federal standards-related measures to the greatest extent possible, and to promote harmonization of private standards. The Agreement does not require that standards and technical regulations be harmonized but provides for it where appropriate. State and private standards-setting bodies are not obligated under any of these provisions.

Both countries will provide for enhanced transparency in the regulatory process. To this end, we will expand our information exchange and guarantee a 60-day comment period on proposed standards-related regulations at all levels. This is important to manufacturers because they need to know about regulatory changes which may affect their products so that they can prepare for the changes, and have some say in them. Similar provisions will apply for state, provincial, and private standards activities at a "best efforts" level.

Processes and production methods are included as standards-related measures subject to the provisions of the Agreement. This provision makes clear that specifying how a product is made is just as much a standards-related measure, and subject to the rules of this section, as specifying how the product should perform.

Both countries will recognize each other's systems for accrediting testing labs. Currently, this is a small program operated by the National Bureau of Standards in the U.S. and the

Canadian Standards Association in Canada to accredit testing labs. Labs accredited under one program will automatically receive recognition in the other country.

Chapter Seven: Agriculture

The U.S. and Canada agree that the achievement of our major trade objectives for our agricultural sectors will require multilateral solutions and accordingly will work together in the Uruguay Round and other fora to liberalize agricultural trade. Nevertheless, the FTA includes provisions providing U.S. and Canadian agricultural producers increased opportunities to market their products in the future with no tariff barriers and with fewer nontariff barriers.

Various barriers to trade in agriculture have arisen in recent years in an attempt to stabilize the agricultural economy. Quotas, import licenses, technical requirements and subsidies have all had a negative effect on trade in agricultural products. The Agreement provides for a number of liberalizing measures in an era of increasing protectionism.

The Agreement provides for semi-annual consultations between the U.S. and Canada on agricultural issues. It also provides that each country shall retain its rights and obligations under the GATT except as otherwise provided.

Tariffs

All agricultural tariffs between the U.S. and Canada will be eliminated within 10 years, thereby facilitating trade and leading to higher efficiency. The agricultural sectors likely to be most affected by the tariff elimination will be fresh fruits and vegetables because some of the highest agricultural tariffs are applied on those products.

Both countries will reserve the right, for 20 years, to apply a temporary duty on designated fresh fruits and vegetables to protect their domestic producers from import surges from the other country. This provision will facilitate a smooth transition to a tariff-free border for both countries, providing a mechanism to prevent unnecessary hardship to fruit and vegetable producers. The temporary duty can only be triggered if (1) the import price falls below 90 percent of the previous five-year average monthly import price for five consecutive days, and (2) the planted acreage in the importing country is not higher than the previous five-year average for the particular fruit or vegetable. The total duty applied under this provision cannot cause the total duty on these products to exceed the lesser of the most-favored-nation (MFN) duty that was in effect for the corresponding season prior to the Agreement or the then current MFN duty. Moreover, it can be applied only once per year per product for no longer than 180 days. The temporary duty will be removed immediately once the import price exceeds 90 percent of the five-year average for five consecutive days.

Subsidies

The U.S. and Canada have agreed to work together to achieve, on a global basis, the elimination of all subsidies which distort agricultural trade through multilateral negotiations such as the Uruguay Round. This is consistent with the U.S. proposal for agriculture in the Uruguay Round. The FTA partners have agreed not to use export subsidies on agricultural goods exported directly or indirectly to the other country. Each country has also agreed not to sell agricultural goods in the other country at a price below the acquisition price plus handling, storage and other costs. This will prevent the use of practices such as dual pricing. The Agreement will not limit other forms of production subsidies in either country.

Canada has agreed to exclude from the transport rates established under the Western Grain Transportation Act (WGTA) agricultural goods originating in Canada and shipped via West Coast ports for consumption in the U.S. These subsidies were instituted by Canada in 1984 as an expansion of the Crow's Nest Act. It is anticipated that this will primarily affect shipments of millfeed and rapeseed meal into the U.S. Pacific Northwest. The Agreement will not affect WGTA subsidies on shipments through Eastern ports (Thunder Bay), which are not conditioned on export and have been in place since 1897.

These provisions do not prevent imposition of antidumping or countervailing duties.

Access Issues

Grains: Canada has agreed to eliminate import licenses for U.S. wheat, barley, oats and their products when U.S. government support for the particular crop is equal to or less than that of Canada. Each country will calculate its own support level in accordance with a methodology set forth in the Agreement. There is a mechanism to resolve any disagreement over the other country's calculation. When it occurs, the elimination of licenses will provide greater access for the U.S. to the Canadian market for both grains and processed products containing grains.

The Agreement will not affect the ability of either country to legislate changes in domestic support programs for agricultural products. Both countries have also reserved the right to impose or reimpose import restrictions on particular grains if imports increase significantly as a result of a substantial change in either country's support programs for that grain.

Meat: In evidence of the spirit of free trade, the two countries will exempt each other from import quotas applied under their respective meat import laws, unless those imports are frustrating import restrictions on meat imports from other countries. This is a further step ensuring access to each other's markets. This provision will not allow the transshipment or substitution of meat from third countries to circumvent the respective meat import laws. Direct third country access to the U.S. for meat will remain unchanged by the Agreement.

Poultry and Eggs: Canada has agreed to increase the base level for its import quotas for eggs, chicken, turkey and products thereof to a level reflecting total shipments over the last five years. This provision will increase the amount of guaranteed access into Canada. As a result of the tariff reductions, U.S. exporters should have a competitive advantage over other potential supplying countries for the increased quotas.

Sugar: The U.S. has agreed not to impose import restrictions on products from Canada containing ten percent or less sugar for purposes of restricting the sugar content of those products. This provision will not limit the ability of the U.S. to restrict the entry of processed products with higher than ten percent sugar content for purposes of protecting the sugar program.

Technical Regulations

The U.S. and Canada have agreed to work together to harmonize, to the greatest extent possible, technical regulations affecting agricultural, food, beverage and certain related goods. These provisions will facilitate trade for both countries by eliminating, where possible, technical requirements that can amount to non-tariff trade barriers. Specific schedules address the following areas: feeds; fertilizers; seeds; animal health; veterinary drugs; plant health; pesticides; food, beverage and color additives; packaging and labeling; meat, poultry and egg inspection; dairy, fruit and vegetable inspection, and unavoidable contaminants in food and beverages.

Chapter Eight: Wine and Distilled Spirits

Export opportunities for U.S. producers of alcoholic beverages have been limited by measures in Canada that discriminate against the internal sale and distribution of imported products in Canada. The Agreement does not prohibit the regulation of alcoholic beverages in either country, but does eliminate the most significant existing discriminatory practices in Canada and prohibit discrimination against the products of the other country for all new regulations.

Listing measures (limits on brands or types of products that may be sold) must no longer discriminate against wine or distilled spirits of the other country. The lone exception to this requirement is that the province of British Columbia may continue to grant automatic listing to certain estate wineries, provided that listing measures do not otherwise discriminate. Criteria for decisions on listings must be based on normal commercial considerations and listing measures cannot be used to create disguised trade restrictions. Further, listing measures must include procedures for a fair a expeditious appeal when an application for a listing is denied.

The Agreement requires the elimination of discriminatory pricing measures for wine and distilled spirits, including charging a higher markup for U.S. products than locally produced products. Any existing markups must be eliminated when the Agreement is implemented for distilled spirits and must be phased out by January 1, 1995 for wine (with half of the differential to be eliminated by January 1, 1990). Differential pricing measures may only be maintained if the differential between products of the two countries does not exceed the additional cost of service for imported products relative to domestic products. Any such cost of service differential will be subject to audit to ensure it reflects actual higher costs rather than arbitrary protection for local products.

The Agreement prohibits discrimination between Canadian and U.S. wine and distilled spirits in terms of the distribution system for these products. However, on-premise sales by a winery or distillery solely for items produced by them may continue. Private wine store outlets existing on October 4, 1987 in Ontario and British Columbia may continue to discriminate in favor of wine produced in those provinces, but distribution measures in those provinces must otherwise provide nondiscriminatory treatment. Quebec is also allowed to continue to require that wine sold in grocery stores must be bottled in Quebec, as long as alternative outlets for U.S.-bottled wine are provided.

Canada has also agreed to eliminate any measures which require that distilled spirits imported in bulk must be blended with Canadian spirits in order to be sold in Canada.

Canada will recognize Bourbon Whiskey as a distinct product manufactured in the United States and the United States will recognize Canadian Whiskey as a distinctive product of Canada.

Tariffs

Tariffs on whiskey and rum will be eliminated when the Agreement takes effect. Tariffs on other distilled spirits, wine and beer will be phased out in ten equal annual amounts so that duty free status will be obtained on January 1, 1998.

Chapter Nine: Energy

Energy is the single most important input for a developed economy. Without it, there could be no basic industries such as chemicals, steel and other primary metals, autos, aviation, and pulp and paper. All of these industries require energy as a key input and some also manufacture products whose use depends on the availability of energy. Thus, assuring secure supplies of energy at stable and reasonable prices is an essential priority of U.S. economic and trade policy.

The U.S. is the world's largest energy consumer. Although we are also one of the leading producers of energy, the requirements of our economy for various forms of energy are so great that we must import significant amounts of energy to meet these needs. Canada is by far our largest energy supplier. We import more crude oil and petroleum products from Canada than from Saudi Arabia, Venezuela or Mexico. Canada supplies almost all of our natural gas and electricity imports, and more than two-thirds of our uranium imports. In addition, Canada is our largest coal export market. The U.S. and Canada share the world's largest bilateral energy trade relationship, with two-way trade of $10 billion per year or more.

Regrettably, the history of this trade has been marked by a considerable degree of government intervention on both sides, in the form of export restrictions, minimum export price requirements, import fees and quotas, and various other trade restrictions. There have also been domestic programs in each country which have distorted trade both in energy itself and in energy-intensive products such as petrochemicals. While these past actions have often been in response to short-term concerns, they have generally worked to the longer-term disadvantage of both countries. At times, artificially low prices have stimulated excess demand while suppressing supply and thus causing shortages. At other times, artificially high prices have stifled economic activity throughout the economy, especially in energy-intensive industries. Overall, the uncertainty about future government energy trade policies and actions has inhibited investment in energy production and energy consuming industries in both countries.

The Agreement builds on the lessons learned from the past by renouncing excessive government interference in our future energy trade and provides a framework for rational economic development of that trade. Because it will encourage the most efficient system for production, distribution and use of energy between the two countries, it will enhance the energy security of both countries. It should also result in lower overall energy costs over the longer term, which will contribute significantly to the international competitiveness of basic industries in each country.

The energy goods covered by the Agreement include petroleum, natural gas, coal, electricity, uranium and other nuclear fuels.

The Agreement reaffirms the rights and obligations of both the United States and Canada with respect to the GATT prohibitions on import and export restrictions. Moreover, it makes explicit that both countries interpret the GATT to prohibit minimum export price requirements. In addition, the Agreement extends the GATT discipline to cover a prohibition on export taxes.

In an annex, the Agreement lists three specific changes to conform existing laws to these commitments: (1) The U.S. will exempt Canada from any potential restrictions on enrichment of foreign uranium which might be imposed under Section 161v of the Atomic Energy Act; (2) Canada will exempt the U.S. from its export restrictions on unprocessed uranium; and (3) the U.S. will allow Canada access to a maximum of 50 thousand barrels per day of Alaskan oil currently restricted from export under Section 7(d) of the Export Administration Act, subject to the condition that this oil will be transported to Canada from a suitable location in the Lower 48 States.

The Agreement affirms that, as provided by the GATT, either country may restrict exports where necessary to respond to supply shortages, to maintain a domestic price stabilization program or to prevent exhaustion of a finite energy resource. However, it may impose a restriction only if the restriction (1) does not reduce the proportion of total supply historically available to the other country; (2) does not disrupt the normal channels of supply or mix of energy products; and (3) does not impose a higher price on exports than for comparable domestic sales. What this means is that neither country will treat the buyers or sellers of energy of the other country as "second-class" customers or suppliers. Canada gains assured market access for its energy exports to the U.S., and the U.S. gains assured access to Canadian supplies for its imported energy requirements.

The Agreement provides for consultation in the event either country believes the energy regulatory actions of the other country would directly discriminate against its energy goods or businesses.

An annex to the Agreement lists regulatory changes to be made to conform to the Agreement. Canada will eliminate its electricity export price test that requires the export price to be not significantly less than the least-cost alternative available to the importer. Other Canadian export tests (price tests and "surplus" tests) must be administered in a manner consistent with the principles of the Agreement.

The U.S. will eliminate any discriminatory treatment of British Columbia Hydro vis-a-vis comparably situated U.S. utilities in terms of access to the Bonneville Power Administration Intertie into the California electricity market. In addition, it is expected that long-term arrangements will be negotiated to assure the development of electricity trade in a mutually beneficial manner consistent with the objectives and principles of the Agreement.

The Agreement recognizes the importance of government incentives for oil and gas resource development to the energy supply security of both countries and, therefore, allows such incentives to be maintained or created. This provision does not prevent the imposition of antidumping or countervailing duties.

The Agreement provides for only quite narrow exceptions to the prohibition on trade restrictions in situations involving national security; these are limited to situations of militarily related national security. The Agreement declares that there is no inconsistency between this Agreement and the obligations of either country under the International Energy Program of the International Energy Agency.

Chapter Ten: Trade in Automotive Goods

Automotive trade accounted for over one-third, or $46 billion, of the total bilateral trade between the U.S. and Canada in 1986. Under the U.S.-Canada Automotive Products Trade Agreement (Auto Pact) of 1965, 95 percent of bilateral automotive trade already moves duty-free. As a result of the FTA, all automotive trade will be duty-free, as long as it meets the rule of origin.

The U.S. and Canada have agreed to the removal of tariff and nontariff barriers and new origin rules designed to assure that the benefits of the FTA accrue to North American auto and auto parts producers. By removing trade and investment distorting practices, the FTA will encourage greater efficiency in motor vehicle production and will provide greater assurance that economic factors determine trade and investment choices between the U.S. and Canada.

Tariffs and Rule of Origin

All tariffs on U.S. and Canadian motor vehicles and parts will be eliminated by January 1, 1998. Most will be phased out over 10 years, but tariffs on aftermarket parts will be eliminated in five years.

The FTA rule of origin which is described in the chapter on rules of origin will apply to all U.S. imports of Canadian automotive products, but only to Canadian imports of U.S. automotive products not entering Canada under the Auto Pact. The FTA rule is based on change in Harmonized System tariff classification and includes a 50 percent U.S.-Canadian direct cost of manufacturing test for vehicles and specified assembled parts.

Here is how the new FTA rules and the existing Auto Pact will work for imports of autos and parts into the U.S. from Canada:

> The FTA rule of origin will replace the rule currently used by the U.S. to implement the Auto Pact. Upon implementation of the FTA, those motor vehicles and original equipment parts currently eligible for duty-free entry under the Auto Pact will be able to enter the U.S. duty-free only if they meet the new FTA rule of origin. Other auto parts that meet the FTA rule of origin will pay the FTA tariff until it is fully eliminated. Motor vehicles and parts that do not meet the FTA rule of origin will pay the full current most-favored-nation (MFN) duty, not the FTA duty.
>
> The new rule of origin is tougher in that it requires that substantial manufacturing costs (materials and direct processing costs) be incurred in the U.S. and/or Canada, while the current test only assures that substantial costs (which can include advertising and overhead) or profits are incurred in the U.S. and/or Canada. This change will help both U.S. and Canadian auto parts manufacturers.

Here is how the new FTA rules and the existing Auto Pact will work for imports of autos and parts into Canada from the U.S.:

> Canada's criteria for duty-free access into Canada under the Auto Pact will not change. Qualified producers (those that meet Canada's performance requirements) will continue to be able to import motor vehicles and parts into Canada duty-free from anywhere in the world. However, it has been agreed in the FTA that no new firms may qualify for Auto Pact or Pact-like benefits in Canada, except for the General Motors-Suzuki (CAMI) joint venture, if it qualifies by the 1989 model year.
>
> For companies not meeting Canada's Auto Pact performance requirements, the FTA tariff will apply (until it is fully eliminated) to products imported from the U.S. that meet the FTA rule of origin. Motor vehicles and parts that do not meet the FTA rule of origin will pay the full current most-favored-nation (MFN) duty, not the FTA duty.

Duty Remission

Canada's export-based duty remission program will be eliminated January 1, 1989 on exports to the U.S. and terminated in all cases by January 1, 1998. The export-based duty remission program allows firms in Canada to reduce duties on motor vehicle and part imports in proportion to the Canadian value-added in their exports of automotive parts.

Canada's production-based duty remissions will end by January 1, 1996 or earlier as contracts expire. Production-based duty remissions allow firms that are not members of the Auto Pact in Canada to avoid duties on automotive imports into Canada as long as they meet Canadian local content requirements.

There will be no new recipients of any Canadian automotive duty remission benefits, and current benefits will not be enhanced. U.S. and Canadian auto parts manufacturers will benefit from the elimination of these measures, which distort trade and investment.

Other Provisions

Canada will phase out its embargo on the importation of used vehicles over five years.

A Select Panel will be established to assess the state of the North American industry and to propose public policy measures and private initiatives to improve its competitiveness in domestic and foreign markets.

Chapter Eleven: Emergency Action

One of the basic tenets of the GATT trading system is that countries should be allowed to take temporary emergency actions restricting imports in order to remedy serious injury caused by increased imports. The drafters of the GATT recognized that a country would be more willing to enter into contractual obligations to reduce its trade barriers if it were able to reimpose the duties when and if imports of a particular product increased to such an extent as to cause injury to one of its industries producing a competing product. Both the U.S. and Canada have established "safeguard" procedures to provide emergency relief to domestic industries injured by imports.

The Agreement provides a two-track system aimed at preserving the existing rights of workers and firms in both countries to gain relief from import-related injury, while at the same time assuring the U.S. and Canadian business communities that the trade expansion created by the FTA will not be suddenly and arbitrarily cut back. Although the U.S. and Canada have not used such actions against each other very often, the possibility of taking actions reduces certainty of market access.

In the United States, domestic producers and workers will have access to relief under special revised provisions of Section 201 of the Trade Act of 1974.

Under the bilateral track, if imports resulting from FTA duty reductions cause serious injury, the importing country may instate the pre-Agreement tariff or current MFN duty (whichever is lower), or suspend duty reductions. This can be done only once per product during the ten-year transition period for no longer than three years. After the transition period, such actions can only be taken by mutual agreement.

Under the global track, the FTA partners retain their GATT rights except that the importing country must exclude the other from an action involving other countries unless that country's imports are substantial and are found to be contributing importantly to the injury from imports. For purposes of this track, imports in the range of five percent to ten percent or less of total imports would normally not be considered substantial. "Contributing importantly" means an important cause, but not necessarily the most important cause.

If the exporting country is initially excluded from an import relief action, the importing country has the right to subsequently bring that country's trade under the import restraint action in the event of a surge in imports from that country. In no event may the exporting country's exports be cut back below the level they reached during a reasonable recent base period.

The FTA partner taking either a bilateral or global action must provide compensation aimed at expanding trade in another product or the exporting FTA partner may take a substantially equivalent retaliatory action.

Disputes arising after an action is taken are subject to binding arbitration under the dispute settlement provisions of the FTA.

Chapter Twelve: Exceptions for Trade in Goods

The Agreement incorporates the provisions of the GATT allowing for exceptions from GATT rules for limited reasons, such as to protect public health or morals or national treasures.

It also specifies certain miscellaneous exceptions from the FTA, including both countries' export controls on logs and existing East Coast Canadian export restrictions on unprocessed fish. Both countries' practices on the internal sale and distribution of beer are also exempted, but amendments to existing practices cannot deviate more from the obligations of the Agreement, and new measures must conform with the FTA.

GATT rights with respect to measures exempted from the FTA are expressly preserved.

PART THREE: GOVERNMENT PROCUREMENT

The general provisions regarding goods trade in Part Two do not apply to purchases of goods by governments.

Chapter Thirteen: Government Procurement

The Agreement expands the size of the government procurement markets which will be open to free and fair competition between U.S. and Canadian suppliers. It also establishes a solid framework for further elimination of "buy national" restrictions that presently inhibit sales by U.S. exporters to Canada.

The procedures used in the Agreement for government purchases build upon the open and competitive principles and procedures of the GATT Government Procurement Code. It improves Procurement Code procedures by establishing a common rule of origin, requiring an effective bid challenge system for all potential suppliers and improving transparency of bid selection, particularly for procurements which are single tendered. The U.S. currently provides for effective bid challenge procedures but Canada does not.

The U.S. and Canadian governments apply various buy national preferences in favor of suppliers of domestic goods. These preferences inhibit -- and in some cases prevent -- competition from foreign products. Under the Agreement, suppliers of goods which are manufactured in the U.S. and Canada and which contain at least 50 percent U.S. or Canadian content will be treated on an equal basis to suppliers of domestic goods for covered procurements.

"Buy American" and "Buy Canadian" restrictions are eliminated on the procurement of goods by U.S. and Canadian entities covered by the GATT Government Procurement Code between the Code threshold (for 1987, $171,000) and an FTA threshold of $25,000, and are subject to the same exclusions and exceptions as those covered by the Code.

Viewed in conjunction with the Procurement Code, the FTA will allow U.S. exporters to compete on a nondiscriminatory basis for all Code-covered procurements over $25,000.

The value of procurement opportunities covered by this chapter is estimated at approximately $3 billion of U.S. procurement and $500 million of Canadian procurement. Previously a majority of Canadian purchases were below the Code threshold, versus a small minority for U.S. entities. Therefore, Canadian entities will open a much higher percentage of procurements under the FTA than will U.S. entities. As a result of the new opportunities offered by Canadian entities under this chapter, procurement opportunities in Canada for U.S. exporters are increased by more than 100 percent.

Principles are established for bid challenge procedures. These include a requirement that a reviewing authority with no substantial interest in the outcome of the procurement be responsible for deciding bid challenges. Suppliers may protest government procedures on their own initiative and receive timely settlement of complaints.

Each government must provide transparency in its procurement process. Public notice must be provided of all the criteria it intends to use in evaluating a bid (including offsets) and the award must be based on those criteria.

Within one year after the conclusion of the current multilateral negotiations on the GATT Procurement Code, there will be an opportunity to improve and expand coverage of this chapter by further negotiations with Canada.

PART FOUR: SERVICES, INVESTMENT AND TEMPORARY ENTRY

GATT rules cover trade in goods only. Services and investment are not covered. The FTA goes beyond traditional GATT areas to establish rules in these areas that break new ground and set an important precedent for the Uruguay Round of multilateral trade negotiations, in which GATT countries are considering whether to extend GATT disciplines to these new areas.

Chapter Fourteen: Services

The Agreement breaks new ground by providing rules governing trade and investment in services industries. Both the U.S. and Canada have relatively open markets for services. The Agreement will ensure continued openness by providing that future laws and regulations will not discriminate against services providers of the other country.

A wide range of services industry sectors are covered by the agreement, including: construction, tourism, insurance, telecommunications-network-based enhanced services and computer services, some professional services, services relating to mining and agriculture, wholesale and retail trade, management services and other business services. Transportation services are not covered.

Future U.S. and Canadian government measures such as laws, regulations or licensing requirements affecting services trade and investment must not have the purpose or effect of discriminating between the services providers of either country. The right of establishment, the right to sell across the border, and greater transparency in regulations are also provided. The Agreement does not affect subsidies for or government procurement of services.

There are annexes which clarify the application of the services agreement to architecture, tourism, and telecommunications-network-based enhanced services and computer services.

In architecture, both sides will review the work of professional organizations to develop mutually acceptable standards.

In telecommunications-network-based enhanced services and computer services, the Agreement ensures the future development of an open and competitive market including access to and use of the basic telecommunications network.

In tourism, the Agreement ensures continued open markets for tourists and tourism service providers.

The Agreement provides the opportunity for future negotiations to increase liberalization, sectoral coverage and other obligations.

Chapter Fifteen: Temporary Entry for Business Persons

The U.S. and Canada have agreed that as a part of the special trading relationship established by the Agreement, it is desirable to facilitate temporary entry for business persons into the territory of each country on a reciprocal basis. The Agreement and immigration laws of both countries will provide transparent criteria and procedures for temporary entry of certain persons who conduct trade in goods and services as well as investment activities, while maintaining necessary provisions to ensure border security and protect indigenous labor and permanent employment. These provisions facilitate entry for citizens of each country into the territory of the other on both a short- and long-term basis depending on the type of commercial activity involved.

The two countries agree to provide temporary entry for business persons through transparent laws and regulations and to provide explanatory materials in order to enable business persons to become acquainted with such laws and regulations. These provisions will be applied in a manner that provides the desired entry without undue delay or impairment in the conduct of trade and investment under the Agreement.

The countries will exchange data on temporary entry and consult at least once a year concerning the operation of the Agreement and consider provisions that may further enhance temporary entry, including amendments and additions to coverage of persons under the Agreement.

Should a dispute arise concerning the provisions of this chapter, it may be referred to the dispute resolution provisions of the Agreement if the matter involves a pattern of practice and available administrative remedies have been exhausted.

Coverage of persons involves Business Visitors and Professionals who shall be admitted without prior approval procedures, petitions, labor certification tests, or other procedures having similar effect, as well as Intra-Company Transferees and Traders and Investors who will no longer face labor certification tests or other similar procedures.

Business Visitors

A business person engaged in one of the covered occupations and entering for the described purpose shall be granted entry under Schedule 1 of the Agreement. This schedule defines the persons involved in a number of business areas and the activities undertaken. The approach provides transparency and specificity to a number of areas of business activity that have in the past been unclear or subject to conflicting interpretation.

One important provision allows persons of either country to provide after-sales service for the length of the contract or warranty period on commercial or industrial machinery and equipment or computer software that has been purchased outside its territory. This allows firms to better provide after-sales service functions that are often a necessary component in the sale of complex machinery, equipment and computer software.

Traders and Investors

A business person seeking temporary entry in order to carry on substantial trade in goods or services in a capacity that involves supervisory, executive or essential skills, or to direct the operations of an enterprise in which the person has invested, shall be granted temporary entry under new, liberalized procedures in the Agreement. The new provisions provide business persons the assurance that after they have received an initial certification, they may freely enter as often as their business needs require.

Professionals

The FTA partners will admit persons who are members of certain professions and engaged in their related business activities. Coverage includes the generally recognized professions such as engineers, architects, and certain scientific and technical specialties. The Agreement also covers newer professions such as management consultants. Revised procedures should provide improved processing of entry requests.

Intra-Company Transferees

Intra-company transferees, when engaged in managerial or executive activities or possessing specialized knowledge, will be admitted. Requirements that certain companies train replacement personnel have been removed.

Chapter Sixteen: Investment

For U.S. investment in Canada, the Agreement builds on the substantial liberalization measures already taken by the present Canadian government. It freezes those measures in place and bars most new measures which would adversely affect U.S. investment.

For its part, the U.S. will continue its open investment climate for Canadian investors in accord with the basic principles set out in the President's Investment Policy Statement of September 9, 1983.

The Basic Rules

The Agreement sets out four basic rules to govern the treatment of investors from each country:

National Treatment and Non-discrimination: Each party is to treat investors of the other party at least as favorably as its own investors (in like circumstances) with respect to the establishment of new businesses and the acquisition of existing business, and with respect to the conduct, operation and sale of business enterprises located in its territory. Neither party, thus, can require that investors sell investments by reason of their nationality, or that their own nationals must hold a minimum level of equity in investments made by investors of the other country.

Elimination of Performance Requirements: Neither party, when permitting an investment in its territory, or when regulating an investment, may impose or enforce trade-distorting measures which require an investor to export a certain amount of goods, or substitute locally produced goods for imports, or buy or give a preference to locally produced goods. (This rule also applies to third country investors when such measures could significantly affect U.S.-Canadian trade.)

Expropriation Only in Accordance with International Law Standards: Neither party may directly or indirectly expropriate the holding of an investor from the other country except in accordance with generally accepted international law standards which, inter alia, require payment of prompt, adequate and effective compensation at the fair market value of the expropriated properties.

Free Transfer: Neither party may prevent an investor from transferring profits, earnings from an investment, or sales and liquidation proceeds (with only limited exceptions relating, for example, to limitations on dividend payments set by bankruptcy laws.)

Exceptions

Certain measures are excluded, notably those involving transportation services. The provision of financial services (except certain insurance measures) are covered elsewhere in the Agreement.

In general, existing measures are grandfathered, such as the existing U.S. laws restricting foreign investment in such fields as atomic energy and communications and the Canadian laws restricting foreign investment in communications. Those measures may not be made more restrictive.

The oil and gas and uranium mining industries were subject to published policies under the Investment Canada Act prior to October 3, 1987; the application of these policies and of the thresholds of the Agreement to these industries is to be clarified by an exchange of letters.

Liberalization of Entry and Exit Restrictions

The Agreement does achieve major liberalization of Canada's Investment Canada Act, which is Canada's principal mechanism for regulating investment into Canada and, a fortiori, sales of Canadian businesses to foreign investors.

Canada's threshold for review of direct acquisitions by U.S. investors is raised to C$150 million (in constant 1992 Canadian dollars) after three years from the date of entry into force of the FTA.

Canada will no longer review indirect acquisitions after the end of that three-year period.

Canada also will apply these higher thresholds to an acquisition by a foreign investor when a U.S. investor seeks to sell its Canadian business.

Canada will offer to buy, at a fair open market price (determined by independent assessment) any business enterprise in Canada in the cultural industry which Canada requires be divested when reviewing an indirect acquisition. If, for example, a U.S. firm seeks to buy another U.S. firm with a Canadian subsidiary in a cultural industry, Canada may require the new owner to divest the cultural subsidiary to a Canadian purchaser. (The FTA exempts cultural industries generally from the Agreement, and therefore from the Chapter.)

Canada will no longer impose certain trade-distorting performance requirements under the Investment Canada Act. These are requirements to export, substitute local production for imports, source or purchase locally, or achieve specified domestic content.

PART FIVE: FINANCIAL SERVICES

Chapter Seventeen: Financial Services

This is the first U.S. bilateral agreement covering the entire financial sector. It removes essentially all existing discrimination faced by U.S. financial institutions operating in Canada, allows the flexibility to acquire Canadian financial services firms, improves access between our markets, and allows financial firms on both sides of the border to compete on a more equal basis. Canadian financial institutions will continue to enjoy the current treatment and open access they now receive in the U.S. financial market.

The Agreement covers all current and future laws, regulations, and practices relating to financial institutions in both countries. Financial institutions include commercial banks, investment banks, trust and loan companies, savings-and-loan institutions, certain activities of insurance companies, and other institutions so designated under the laws of each country. (Financial services offered by nonfinancial institutions and insurance services are covered elsewhere in the Agreement.)

The domestic assets of foreign bank subsidiaries operating in Canada (the "closely held" or Schedule B banks) are currently limited to 16 percent of all domestic assets of the Canadian banking system. Foreign bank subsidiaries also face individual capital limits and other restraints such as the sale of loans to the parent bank. Under this agreement, U.S. commercial bank subsidiaries will be exempt from the current restrictions on market share, asset growth, and capital expansion, in the same way that Canadian banks are free from these restraints. U.S. commercial banks will also be allowed to establish or acquire securities firms or federally-regulated Canadian insurance and trust companies, again in the same manner as Canadian banks.

Under the current proposals for financial market reform in Canada, foreign insurance companies have perhaps been the most disadvantaged because of the so-called "10/25" rule. This prevents a nonresident from acquiring more than 10 percent ownership of a Canadian insurance company, or trust and loan company; total nonresident ownership is limited to 25 percent. Under the

Agreement, U.S. insurance firms will now receive the same rights as Canadian insurance companies to diversify in the financial sector by establishing or acquiring federally-regulated insurance companies, trust companies, Schedule B banks, or securities firms.

While Ontario, Quebec, and other provinces have liberalized their securities markets and opened them to foreign investors, the federal government implemented a policy of reciprocity which has held up the applications for entry by U.S. securities firms and banks. Under the Agreement, these applications will be reviewed on a prudential basis, just as for Canadian firms, rather than on a reciprocity basis. U.S. securities firms established in Canada will have the ability to diversify through a holding company structure into other financial activities such as banking and insurance.

Under the Agreement, the U.S. also made a number of specific commitments, although there were no national treatment barriers in the United States to eliminate. The U.S. agreed to guarantee the right of Canadian banks to retain their multi-state branches that were grandfathered under the International Banking Act of 1978. If the Glass-Steagall Act, which separates commercial and investment banking in the U.S., is amended, the U.S. will extend these benefits to Canadian financial institutions in the U.S. Such guarantees have never before been extended to any other country.

The U.S. responded to Canadian concerns regarding the treatment of their banks and securities firms which merge in Canada, but have operations in the U.S., by agreeing to allow Canadian banks (as well as U.S. and other foreign banks) in the U.S. to underwrite and deal in debt obligations fully backed by Canada or its political subdivisions. This is a new power that is consistent with the existing ability of banks to underwrite and deal in securities of the U.S. Government and its political subdivisions, yet does not undermine the basic tenets of the Glass-Steagall Act.

The new power enables Canadian firms to take advantage of liberalization in Canada, while retaining the most important securities activities in the U.S. One of the side effects of this new power will be a direct benefit to the Canadian federal government, the Agent Crown corporations, the provincial governments, and the municipal governments in Canada. Since, as a result of the agreement, their debt will be underwritten and traded by more firms in the U.S., it offers the potential for a wider, deeper market and, therefore, lower borrowing costs.

In addition to these specific commitments, both the U.S. and Canada have made general commitments. The U.S. has agreed to continue the current treatment provided to Canadian financial institutions established in the U.S. as long as Canada continues to liberalize its financial markets and to extend the benefits to U.S. financial institutions established in Canada. Canada has made an analogous commitment. The Agreement establishes a formal consultative mechanism between the U.S. Department of the Treasury and the Canadian Department of Finance to oversee this liberalization and deal with any other financial services issues.

PART SIX: INSTITUTIONAL PROVISIONS

This part establishes procedures for general dispute settlement and the special arrangements for antidumping and countervailing duties.

Chapter Eighteen: Institutional Provisions

The Agreement provides for a consultative mechanism to avoid disputes and resolve any disagreements quickly and easily, with provisions for use of binational panels of independent experts for unresolved disputes.

The Canada-United States Trade Commission is established to supervise the implementation of the Agreement and to resolve disputes on all matters except financial services, antidumping and countervailing duties. The Commission will be composed of Cabinet-level representatives of both governments and will operate by consensus.

Either government may request consultations and will attempt to avoid or resolve disputes through consultations. If consultations are unsuccessful, either government may request a meeting of the Commission. The Commission may use a mediator or draw on expert advice in seeking a bilateral settlement. If not resolved in this manner, the Commission may agree to refer the matter to binding arbitration or a panel can be established at the request of either party.

A panel will be appointed from a roster maintained by the Commission. Two panelists will be appointed by each government and a fifth, the chairman, will be jointly agreed, selected by the other four, or chosen by lot. The panel, after hearing the arguments of both sides, will report its findings and recommendations to the Commission. If either side believes the panel has erred, it may present written objections to the panel, which may reconsider and revise its final report.

After receiving the panel's final report, the Commission will agree on the resolution of the dispute, whenever possible removing the nonconforming measure rather than paying compensation. If the Commission cannot agree and a government believes its fundamental rights or benefits under the FTA are being impaired, that government may withdraw equivalent benefits from the other.

Chapter Nineteen: Binational Dispute Settlement in Antidumping and Countervailing Duty Cases:

The U.S.and Canada will continue to apply their own national antidumping (AD) and countervailing duty (CVD) laws to goods imported from the other country. In such cases, independent binational panels acting in place of national courts will expeditiously review final AD and CVD determinations to decide whether they are consistent with the AD or CVD law of the country that made the determination.

The panel procedure -- combining independent review and judicial standards with an FTA-created forum and a tight schedule -- will allow quick resolution of AD/CVD issues between the two countries without unnecessary bilateral trade friction, yet preserve the rights of injured companies to obtain relief from unfair trade practices. The panel mechanism will remain in place for up to seven years, while a bilateral working group attempts to develop new approaches to unfair pricing and government subsidies that would ensure effective discipline over unfair trade practices and minimize unfair trade disputes within the new free trade area.

Under the FTA's panel procedure, independent binational panels will review final AD and CVD determinations by the relevant administrative agencies of the U.S. and Canada. In one FTA country's AD or CVD case involving a product from the other FTA country, panels would substitute for national courts unless, in a particular case, no party preferred panel to court review. Panel decisions would be binding as a matter of international law with respect to the particular matter reviewed. This system of review would apply to final determinations made by an administrative agency after the date of entry into force of the Agreement. It will not affect either country's judicial review of AD/CVD cases concerning imports from third countries.

In the U.S., the Department of Commerce makes final dumping or subsidy determinations in AD/CVD investigations and reviews of AD/CVD orders, and the U.S. International Trade Commission makes final determinations in AD/CVD investigations as to whether a U.S. industry has been injured. These determinations in a U.S. case involving goods from Canada, and Canada's parallel determinations in a Canadian case involving goods from the U.S., will be subject to panel review. This symmetry in the panel review process will enhance the rights of U.S. producers and exporters, since judicial review of some Canadian dumping and subsidy findings is not now available.

The panels will review final AD/CVD determinations solely to determine, based on the administrative record, whether the relevant administrative agency applied its national AD/CVD law correctly. The panels will employ the same standard of review and the same general legal principles as would a domestic court. If a panel finds that the administrative agency applied the law correctly, it will affirm the determination. Otherwise, it will send the case back for a corrected determination.

Although formally only the two governments may invoke the panel review process, the governments will automatically trigger panel review at the request of any person who otherwise could have challenged the determination in court. Parties to the case or their lawyers will argue their positions before the panel, as they would before a court. Sensitive business information will be protected against unlawful disclosure in the panel review process.

Panelists will generally be selected from a roster to be developed by the two governments. Individuals on the roster will be U.S. or Canadian citizens chosen for objectivity, reliability, sound judgment, and general familiarity with international trade law. To ensure impartiality, roster members, with the exception of judges, may not be government officials. Individual panels will have five members, the U.S. and Canada each appointing two. The fifth panelist will be chosen by agreement between the two governments, among the four panelists, or by lot from the roster. Because panels will be performing a judicial-like function, a majority of the panelists including the chairman must be attorneys.

The two governments expect the panel system to work smoothly and effectively. As a safeguard against an impropriety or gross panel error that could threaten the integrity of the process, however, the FTA provides for an "extraordinary challenge procedure." In carefully defined circumstances, either government could appeal a panel's decision to a three-member committee of U.S. and Canadian judges or former judges. The committee would make a prompt decision to affirm, vacate, or remand the panel's decision.

The Agreement also establishes a procedure for advisory panel review of amendments to U.S. or Canadian AD or CVD laws enacted after the FTA enters into force. The two governments will consult about any proposed AD/CVD amendments applicable to the other country's goods. If one country changes its AD or CVD statutes, the other government may request that a panel be established to give an advisory opinion on whether the amendment is consistent with the GATT and the FTA.

If the panel views the amendment as inconsistent with the GATT or the Agreement and recommends modifications to eliminate the inconsistency, the two governments will consult to reach a solution, which could include seeking remedial legislation. If no agreement is reached or remedial legislation agreed on is not enacted, the complaining government may enact a comparable amendment to its AD/CVD law or terminate the Agreement upon 60 days' written notice.

PART SEVEN: OTHER PROVISIONS

Chapter Twenty: Other Provisions

Provisions which did not fall logically into other chapters appear here. Included are some particular sectoral issues, as well as some general rules affecting the overall Agreement.

Softwood Lumber

The 1986 Memorandum of Understanding (MOU) on Softwood Lumber is grandfathered. The MOU resolved a countervailing duty case brought by the U.S. softwood lumber industry against Canada's lumber exports. Canada agreed to apply a 15 percent export tax on lumber until such time as the provincial stumpage pricing practices were altered.

Plywood

Canada will decide by March 15, 1988 whether to allow the use of U.S. standard C-D grade plywood in housing it finances. If so, U.S. tariff concessions on plywood and particleboard will begin to be implemented on January 1, 1989. If not, a panel of experts will examine the issue and the governments will consult on how to implement the tariff concessions.

Culture

It has been the policy of Canadian governments to promote cultural activities with the goal of fostering Canada's unique cultural heritage. Some of these measures have had trade effects and an adverse impact on U.S. commercial interests.

The U.S. recognizes the importance to Canada of maintaining its cultural identity. At the same time, however, the U.S. wants to ensure that Canadian cultural policies do not constitute a discriminatory and unnecessary barrier to U.S. trade.

Certain "cultural industries" are exempt from the provisions of the FTA. This allows either country to maintain programs that would otherwise be inconsistent with the Agreement. However, the other country retains the right to retaliate with measures of equivalent commercial effect whenever the cultural exemption hurts that country's commercial interests. The right to take countermeasures is not subject to prior invocation of the Agreement's dispute settlement provisions.

Cultural activities exempted from the FTA include the publication, sale, distribution or exhibition of: books, magazines, and newspapers; film and video recordings; audio or video music recordings; and also radio, television and cable dissemination. Of course, tariffs will be eliminated on all these products.

In addition, Canada has agreed to alter a number of practices that discriminate against U.S. businesses. These new steps include elimination of a print-in-Canada requirement for tax benefits and increased copyright protection for the retransmission of commercial broadcasts.

Other Provisions

The two governments agreed that if either takes trade actions to counteract a serious deterioration in its balance of-payments position, it will do so consistent with its rights and obligations under the GATT, the International Monetary Fund and the Organization for Economic Cooperation and Development.

The precedence of the 1980 tax convention is stated because the Agreement takes precedence over other agreements unless specified.

The standard GATT national security disclaimer is adopted, except for energy and government procurement. For energy, there is a more limited national security provision specified in the energy chapter. For government procurement, the GATT Government Procurement Code provision is adopted.

The establishment of government monopolies is expressly permitted, but it must be done in a way that does not violate the principles of the Agreement.

The Agreement states that if measures not expressly prohibited are deemed nevertheless to nullify or impair benefits reasonably expected under the Agreement, dispute settlement can be invoked.

PART EIGHT: FINAL PROVISIONS

Chapter Twenty-One: Final Provisions

The two governments agree to exchange necessary statistical information and to publish information to facilitate implementation of the Agreement. The Agreement will become effective January 1, 1989. It can be amended by mutual agreement and can be terminated by either party with six months' notice.

For Further Information, Contact:	Area Code 202
The Office of the U.S. Trade Representative	
Office of Canada	395-5663
Office of Public Affairs	395-3230
Department of Commerce	
Office of Canada	377-3101
Office of Public Affairs	377-3808
Department of Agriculture	
Office of International Trade Policy	382-1338
Office of the Press Secretary	447-4623
Department of the Treasury	
Office of International Trade	566-8107
Office of International Investment	566-5811
Canada Desk (Financial Services)	566-2747
Department of State	
Bureau of Economic and Business Affairs	
Office of Trade	647-1718
Office of Public Affairs	647-1942
Bureau of European and Canadian Affairs	
Office of Canadian Affairs	647-1097
Department of Labor	
Office of International Economic Affairs	523-6096
Office of Public Affairs	523-9711
Department of Energy	
Office of Int'l Affairs and Energy Emergencies	586-5800

ACTE/CAN MEMBERS
as of February 1, 1988

ABC Custom Cedar Homes, Inc.	Sonoma, CA
ADC Telecommunications	Bloomington, MN
AT&T	New York, NY
A-C Brake Co., Inc.	Louisville, KY
A.T. Cross Company	Lincoln, RI
ALCOA	Pittsburgh, PA
AMCA International Corporation	Hanover, NH
Aaonton Group, Inc.	Plano, TX
Action Associates	Bloomington, MN
Aerospace Industries Association of America, Inc.	Washington, DC
Air Conditioning and Refrigeration Institute	Arlington, VA
Air Conditioning Contractors of America	Washington, DC
Alaska Quality Control & Technical Services, Ltd.	Anchorage, AK
Albert Seisler Machine Corp.	Mohnton, PA
Alderfer & Herm	Denver, CO
Allied-Signal International, Inc.	Morristown, NJ
Allis - Chalmers Corporation	West Allis, WI
Almerica Overseas, Inc.	Destin, FL
Alpha Research, Inc.	Glendale, WI
Alumax, Inc.	San Mateo, CA
Amatos, Inc.	Middletown, CT
Ambler Organizational Consultants, Inc.	Cherry Hill, NJ
Amerace Corporation	Hackettstown, NJ
Amerex Corporation	Trussville, AL
American Association of Exporters & Importers	New York, NY
American Association of Meat Processors	Elizabethtown, PA
American Business Conference	Washington, DC
American Cast Metals Association	Des Plaines, IL
American Council of Independent Laboratories	Washington, DC
American Electronics Association	Washington, DC
American Express Company	New York, NY
American Federation of Small Business	Chicago, IL
American Frozen Food Institute	McLean, VA
American Furniture Manufacturers Association	Washington, DC
American Gas Association	Arlington, VA
American Institute of Marine Underwriters	New York, NY
American Institute of Small Business	Minneapolis, MN
American Newspaper Publishers Association	Washington, DC
American Retail Federation	Washington, DC
American Street Corridor Business Association	Philadelphia, PA
American Trucking Association	Alexandria, VA
Amigo Sales, Inc.	Bridgeport, MI
Amoco Corporation	Chicago, IL
Archer Daniels Midland	Decatur, IL
Armtek Corporation	New Haven, CT
Arthur Andersen & Company	Chicago, IL
Arthur Young	Dallas, TX

Artmor Plastics Corporation	Cumberland, MD
Associated Builders & Contractors	Washington, DC
Associated Lumber Industries, Inc.	Carbondale, IL
Association of Collegiate Entrepreneurs	Wichita, KS
Atlantic Council Canada Group	Washington, DC
Augat, Inc.	Mansfield, MA
Austad's	Sioux Falls, SD
Avon Products, Inc.	New York, NY
B.F. Goodrich Company	Akron, OH
BP America, Inc.	Cleveland, OH
Babcock & Wilcox, Company	New Orleans, LA
Baker Service Tools	Houston, TX
Baldor Electric Company	Fort Smith, AR
Ball Corporation	Muncie, IN
Ball Publishing Company	Arcanum, OH
Bank of America	San Francisco, CA
Barnes Group, Inc.	Bristol, CT
Barrett Trailers, Inc.	Oklahoma City, OK
Barrios Technology, Inc.	Houston, TX
Barrister Information Systems Corporation	Buffalo, NY
Bearings, Inc.	Cleveland, OH
Beckman Instruments, Inc.	Fullerton, CA
Bemis Manufacturing Company	Sheboygan Falls, WI
Bend Photo Center, Inc.	Bend, OR
Bernard R. Horn Company	Folcroft, PA
Better Business Bureau of Maricopa County	Mesa, AZ
Blair Cartage, Inc.	Newbury, OH
Blatt's Bakery	Put-in-Bay, OH
Boeing Company	Seattle, WA
Bowes Manufacturing, Inc.	Solon, OH
Bristol-Myers Company	New York, NY
Brodart Company	Williamsport, PA
Brooklyn Union Gas Company	Brooklyn, NY
Brown Capital Management, Inc.	Baltimore, MD
Brown Deer Bank	Brown Deer, WI
Brown-Forman Corporation	Louisville, KY
Buffalo Forge Co.	Buffalo, NY
CPC International, Inc.	Englewood Cliffs, NJ
Carbis Walker & Associates	Butler, PA
Cargill, Incorporated	Minneapolis, MN
Carolina Freight Carriers Corporation	Cherryville, NC
Cass County Abstract Company	Fargo, ND
Castite Systems, Inc.	Cleveland, OH
Caterpillar, Inc.	Peoria, IL
Champion International Corporation	Stamford, CT
Charles Beck Machine Corporation	King of Prussia, PA
Charles F. McAfee Architects Engineer Planners	Wichita, KS
Charter Medical Corporation	Macon, GA
Chattahoochee Business Group	Marietta, GA
Chicago Barter Corporation	Lombard, IL
Chicone Groves	Orlando, FL
Christy's	Ellwood City, PA
Chrysler Corporation	Highland Park, MI
Citicorp	New York, NY

Citizens for a Sound Economy	Washington, DC
Clark Seals, Ltd.	Tulsa, OK
Claseman Management Services	St. Paul, MN
Climatic Control Company, Inc.	Milwaukee, WI
Coalition of Service Industries, Inc.	Washington, DC
Coca Cola, Co.	Washington, DC
Colborn's	Billings, MT
Coleco Industries, Inc.	West Hartford, CT
Columbia Chocolates By Mordens	Astoria, OR
Comdisco, Inc.	Rosemont, IL
Commercial Design Consultants	Milwaukee, WI
Committee for Small Business Exports	Aspen, CO
Comp-U-Card International, Inc.	Stamford, CT
Competition Cams, Inc.	Memphis, TN
Competitive Enterprise Institute	Washington, DC
Computer & Business Equipment Manufacturers Association	Washington, DC
Computer & Communications Industry Association	Washington, DC
Conco Systems, Inc.	Verona, PA
Concord Engineering, Inc.	Richmond, CA
Concord, Inc.	Fargo, ND
Consolidated Freightways, Inc.	Menlo Park,CA
Contact Systems Corporation	New York, NY
Control Data Corporation	Minneapolis, MN
Cooper Industries, Inc.	Houston, TX
Coopers & Lybrand	New York, NY
Copyright Clearance Center	Salem, MA
Creative Management Concepts	Reading, PA
Curtin Insurance Agency, Inc.	Cambridge, MA
Curtis Circulation Company	Hackensack, NJ
Custom Engineering, Inc.	Englewood, CO
D&M Consulting & Brokerage, Inc.	Marshfield, WI
D-M-E Company	Madison Heights, MI
Dawg Luvers & Co.	Jesup, GA
Deering Lumber, Inc.	Biddeford, MA
Design & Manufacturing Corporation	Connersville, IN
Di-Rec Services	Dallas, TX
Distilled Spirits Council of the U.S., Inc	Washington, DC
Dollar Power Discount Store	San Francisco, CA
Dolphin Photo Center, Inc.	Bend, OR
Donaldson Company, Inc.	Minneapolis, MN
Dow Chemical, U.S.A.	Midland, MI
Dow Corning Corporation	Midland, MI
Dunkin' Donuts Incorporated	Randolph, MA
E. H. Curtin Insurance Agency	Cambridge, MA
E. I. du Pont de Nemours & Co.	Wilmington, DE
E. J. Kearney & Company	Portland, ME
E. R. Clarke Associates, Inc.	Lake Forest, IL
Eastern Building Material Dealers Assoc.	Media, PA
Eastman Kodak Company	Rochester, NY
ERA Steel Construction Corp.	White Plains, NY
Echlin Corp.	Branford, CT
Eclipse, Inc.	Rockford, IL
Econocorp, Inc.	Randolph, MA

Elbert Bradshaw Enterprises	Carmel, IN
Electro Rent Corporation	Santa Monica, CA
Emergency Committee for American Trade	Washington, DC
Enerco Technical Products, Inc.	Cleveland, OH
Ernst & Whinney	New York, NY
Ernst & Whinney International	New York, NY
Esselte Business Systems, Inc.	Garden City, NY
Event Specialists, Inc.	Anchorage, AK
Executive Report	Pittsburgh, PA
FMC Corporation	Chicago, IL
Fairchild Industries	Chantilly, VA
Fila Associates	Miami, FL
First Bank System	Minneapolis, MN
Flambeau Corporation	Baraboo, WI
Fleetwood Enterprises, Inc.	Riverside,CA
Flint Industrial Services	Albany, GA
Focus Electronics, Inc.	Brooklyn, NY
Ford Motor Company	Dearborn, MI
Fort Howard Paper Company	Green Bay, WI
Fraser Paper, Limited	Madawaska, ME
Fred Jones Manufacturing Company	Oklahoma City, OK
Fuqua Industries, Inc.	Atlanta, GA
G.D. Searle & Co.	Chicago, IL
Garrett Corporation	Torrance, CA
Gates Lear Jet Corporation	Tucson, AZ
Gatherings South, Inc.	Greenville, SC
Gene Boyer & Associates, Inc.	Beaver Dam, WI
Genentech, Inc.	S. San Francisco, CA
General Dynamics Corporation	St. Louis, MO
General Electric Company	Fairfield, CT
General Public Utilities Corporation	Parsippany, NJ
Gerber Industries, Inc.	St. Peters, MO
Glowacki Everhardt & Association, Inc.	Toledo, OH
Goldman Sachs	New York, NY
Goodyear Tire & Rubber Company	Akron, OH
Gorman-Rupp Co.	Waterbury, CT
Grand Trunk Western	Detroit, MI
Greater Newark Chamber of Commerce	Newark, NJ
Gregory Manufacturing Co., Inc.	Jackson, MS
Griffin Agency	Prospect, PA
Grit Publishing Company	Williamsport, PA
Grumman Corporation	Bethpage, NY
HMA International Business Development, Ltd.	Greensboro, NC
Half Price Books, Inc.	Dallas, TX
Hamilton Beach, Inc.	Waterbury, CT
Heat - Timer Corporation	Fairfield, NJ
Helene Curtis Industries	Chicago, IL
Hercules Engines, Inc.	Canton, OH
Herrmidifier Company, Inc.	Lancaster, PA
Hevi-Haul International Limited	Butler, WI
Hexagon Architecture Group Limited	Wyncote, PA
High-Tech International	Beltsville, MD
Hill & Associates	Madison, WI
Hoffman Air & Filtration Systems	East Syracuse, NY

Holiday Corporation	Memphis, TN
Holloman Child Development Centers	Hampton, VA
Honeywell, Inc.	Minneapolis, MN
Horizon Resources Corporation	York, PA
Hotwatt, Inc.	Danvers, MA
Hunt Tractor, Inc.	Louisville, KY
ITBR, Inc.	Austin, TX
Illinois Lumber & Material Dealers Assoc.	Springfield, IL
Illinois Small Businessmen's Assoc.	Chicago, IL
Image Express	Southfield, MI
Imperial Schrade Corporation	New York, NY
Impressive Advance & Litho, Inc.	Waynesboro, VA
Incom International, Inc.	Pittsburgh, PA
Independent Bakers Association	Washington, DC
Industrial Commission of Arizona	Mesa, AZ
Industrial Heating Equipment Association	Arlington, VA
Informerific/Hexter & Associates	Cleveland, OH
Intel Corporation	Santa Clara, CA
International Business Aviation Council, Ltd.	Washington, DC
International Business Machines Corp.	Armonk, NY
International Data Corporation	McLean, VA
International Franchise Association	Washington, DC
Interstate Electronics Corporation	Anaheim, CA
JGP Marketing Group International, Inc.	Livonia, MI
JLG Industries, Inc.	McConnellsburg, PA
Jack O'Connor's Quality Beef 'N Seafood	Bridgewater, NJ
Johnson & Higgins	New York, NY
Johnson & Johnson	New Brunswick, NJ
Jon Holtshopple & Associates	Madison, WI
Judith E. Meador	St. Louis, MI
Justin Boot Company	Fort Worth, TX
Katy Industries, Inc.	Elgin, IL
Kentucky Manufacturing Co.	Louisville, KY
Kerr-Hays Co.	Ligonier, PA
Kimball Physics, Inc.	Wilton, NH
Kingsbury Machine Tool Corporation	Keene, NH
Knape & Vogt Manufacturing Company	Grand Rapids, MI
Knoll International Holdings, Inc.	New York, NY
Koch Industries	Wichita, KS
Koester Corporation	Defiance, OH
L.R. Nelson Corporation	Peoria, VA
LC Technologies, Inc.	Fairfax, VA
Lafarge Corporation	Dallas, TX
Lamanite Enterprises Corp.	Clearfield, UT
Lancaster Laboratories, Inc.	Lancaster, PA
Laramy Products Co.	Lyndonville, VT
Lavelle Aircraft Co.	Philadelphia, PA
Lee, Theisen & Stegall	Phoenix, AZ
Lennox Industries Inc.	Dallas, TX
Lewis Ranches	Portland, OR
Lin-Art, Ltd.	Arlington Heights, IL
Litton Industries	Woodland Hills, CA
Longyear Company	Minneapolis, MN
Louisiana Association of Business and Industry	Baton Rouge, LA

Louisiana Retailers Association	Baton Rouge, LA
Louisville Plate Glass Company	Louisville, KY
Lowe's Companies, Inc.	North Wilkesboro, NC
Luken's General Industries, Inc.	St. Louis, MO
Luken's Inc.	Coatesville, PA
Lumbermen Associates, Inc.	Philadelphia, PA
M. Brown & Sons, Inc.	Bremen, IN
M. S. Hansson, Inc.	Boulder, CO
MDB, Inc.	Pittsburgh, PA
Mack Trucks Inc.	Allentown, PA
Macmillan, Inc.	New York, NY
Maidenform, Inc.	New York, NY
Maine Machine Products Company	South Paris, ME
Maine Wild Blueberry Company	Machias, ME
Manufactured Buildings Components, Corp.	East Lansing, MO
Marco Wood Products	Walled Lake, MI
Margaret Coleman Associates	Hinsdale, IL
Marketing Communications Systems	Portland, OR
Markets Abroad, Inc.	Miami, FL
Marriott Corporation	Washington, DC
Marsh & McLennan, Inc.	New York, NY
Marshall & Associates	Topsfield, MA
Mary Kay Cosmetics	Dallas, TX
Mattel, Inc.	Hawthorne, CA
Mayflower Transit, Inc.	Indianapolis, IN
Maytag Corporation	Newton, IA
McIntosh, Inc.	Norfolk, NE
McLaurin Parking Co.	Raleigh, NC
McMinnville City Sanitary Service, Inc.	McMinnville, OR
Measurex Corporation	Cupertino, CA
Mel Boldt & Association	Mt. Prospect, IL
Mentholatum Company	Buffalo, NY
Merck & Co., Inc.	Rahway, NJ
Metal Treating Institute	Jacksonville Beach,FL
Metropolitan Life Insurance Company	New York, NY
Mid-Continent Cold Storage Co.	Omaha, NE
Milbar Corporation	Chargin Falls, OH
Miller Picking Corporation	Johnsontown, PA
Minnesota Mining & Manufacturing Company (3M)	St. Paul, MN
Mobil Oil Corporation	New York, NY
MonArk Boat Company	Monticello, AR
Morgan Guarantee	New York, NY
Morton Buildings, Inc.	Morton, IL
Mosbacher Energy Company	Houston, TX
Mosler International	Hamilton, OH
Murphy Oil Corporation	El Dorado, AR
N. J. Chapter - National Association of Women Business Owners	Cherry Hill, NJ
NVRyan	Alexandria, VA
Nalco Chemical Company	Naperville, IL
National American Wholesale Grocers Association	Falls Church, VA
National Association of Beverage Importers, Inc.	Washington, DC
National Association of Home Builders	Washington, DC

National Association of Manufacturers	Washington, DC
National Association of Photographic Manufacturers	Harrison, NY
National Association of Printing Ink Manufacturers	Harrison, NY
National Association of Women Business Owners	Chicago, IL
National Federation of Independent Business	Washington, DC
National Foreign Trade Council	New York, NY
National Frame Builders Association	Kansas, City, MO
National Gypsum Company	Dallas, TX
National Hispanic Business Association	Chamblee, GA
National Lumber & Building Materials Dealers Association	Washington, DC
National Machine Tool Builders Association	McLean, VA
National Retail Merchants Association	Washington, DC
National Small Business United	Washington, DC
National-American Wholesalers Grocers' Association	Washington, DC
Nestle Enterprises, Inc.	Solon, OH
New Jersey Small Business Unity Council	Little Silver, NJ
Newlyweds Foods, Inc.	Chicago, IL
Nicholson, Inc.	Helena, MT
North Haven Gardens	Dallas, TX
Northeastern Retail Lumbermen's Association	Rochester, NY
Northland Corporation	Greenville, MI
Northwest River Supplies, Inc.	Moscow, ID
O'Brien Communications	Del Mar, CA
Oakes & McClelland Company	Greenville, PA
Oakwood Markets, Inc.	Kingsport, TN
Occidental Chemical Corp.	Dallas, TX
Occidental Petroleum Corporation	Los Angeles, CA
Ogilvy & Mather	WAshington, DC
Oneida Ltd.	Oneida, NY
PC Etcetera	New York, NY
PII Affiliates, Ltd.	Manchester, PA
PLM Companies, Inc.	San Francisco, CA
PMI/Taylor Advertising	Columbus, OH
Pacer Systems, Inc.	Billerica, MA
Pacific Interstate Company	Los Angeles, CA
Pacific Northwest International Trade Association	Seattle, WA
Paragon Electric Company, Inc	Two Rivers, WI
Parlette Tire Co., Inc.	Erie, PA
Peat Marwick Main & Co.	New York, NY
Pennwalt Corporation	Philadelphia, PA
People to People Associates	Lexington, MA
Pepsi-Cola International	Somers, NY
Perham Egg, Inc.	Perham, MN
Perlis Truckstops	Cordele, GA
Pet Incorporated	St. Louis, MO
Pharmaceutical Manufacturers Association	Washington, D.C.
Philips Industries, Inc.	Dayton, OH
Picken Parts, Inc.	Fresno, CA

Pillsbury Company	Minneapolis, MN
Plabell Rubber Products, Inc.	Toledo, OH
Plasma Energy Corp.	Raleigh, NC
Plasco, Inc.	Woburn, MA
Ply*Gem Industries, Inc.	New York, NY
Polaris Industries, Inc.	Minneapolis, MN
Polaroid Corporation	Cambridge, MA
Powermax, Inc.	Columbus, OH
Pratt & Lambert	Buffalo, NY
Pre-Paid Legal Services	Ada, OK
Precision Twist Drill Co.	Crystal Lake, IL
Prinova Co., Inc.	San Francisco, CA
Printing Industries of America	Arlington, VA
Procter & Gamble	Cincinnati, OH
Product Development Corporation	Little Rock, AR
Professional Service Corporation	Green Bay, WI
Professional Wealth Management, Inc.	Asheville, NC
Professional Women in Construction & Allied Industries	White Plains, NY
Progressive Management Enterprises, Ltd.	St. Louis, MO
Pulp & Paper Machinery Manufacturers' Association	Washington, DC
Queen Carpet Corporation	Dalton, GA
Queen City Industries, Inc.	Piqua, OH
Quick, Finan & Associates, Inc.	Washington, DC
Quill Corporation	Lincolnshire, IL
R. R. Accessories, Inc.	Boston, MA
R. R. Donnelley & Sons Company	Chicago, IL
RJR Nabisco	Winston-Salem, NC
Radio KDNO	Delano, CA
Ramada, Inc.	Phoenix, AZ
Recognition Equipment, Inc.	Dallas, TX
Recon/Optical, Inc.	Barrington, IL
Rexnard, Inc.	Brookfield, WI
Rheem Manufacturing Company	New York, NY
Ridenour & Associates	Chicago, IL
Riordan, Crivello, Carlson & Menthkowski	Milwaukee, WI
Roll-o-Matic, Inc.	Kansas City, MO
Rooney, Plotkin & Willey	Providence, RI
Rorer International Pharmaceuticals	Fort Washington, PA
Rotron Engineering Company, Inc.	Woburn, MA
Rudolph Beaver, Inc.	Waltham, MA
Rural Gravuce Services, Inc.	Madison, WI
Russ Berrie and Company, Inc.	Oakland, NJ
S. C. Johnson & Son, Inc.	Racine, WI
SNC Manufacturing Company	Oshkosh, WI
Sabre Yachts	South Casco, ME
Safeway Stores, Inc.	Oakland, CA
Samsonite Corporation	Denver, CO
Sandmeyer Steel Company	Philadelphia, PA
Sargent-Welch Scientific Company	Skokie, IL
Scientific-Atlanta, Inc.	Atlanta, GA
Scott Paper Company	Philadelphia, PA
Sears, Roebuck and Company	Chicago, IL

Shaw Mudge & Company	Stamford, CT
Shell Oil Company	Houston, TX
Sheridan & Fritz, P.C.	Harrisburg, PA
Siliconix Inc.	Santa Clara, CA
Simplex Time Recorder Company	Gardner, MA
Singer, Lewak, Greenbaum & Goldstein	Los Angeles, CA
Smada, Inc.	Phoenix, AZ
Small Business Foundation of America	Boston, MA
Small Business Hawaii, Inc.	Honolulu, HI
Small Business United of Missouri	St. Louis, MO
Smaller Business Associates of New England	Boston, MA
Smaller Manufacturers Council	Pittsburgh, PA
Smith Barney, Harris, Upham & Co., Inc.	New York, NY
Smith Rollinson	Alexandria, VA
Snyder General Corporation	Dallas, TX
Southern Connecticut Gas Company	Bridgeport, CT
Spacesaver Corporation	Fort Atkinson, WI
Specialized Carriers & Rigging Association	Alexandria, VA
Square One, Inc.	Madison, WI
Squibb Corporation	Princeton, NJ
Sta-Rite Overseas Corporation	Milwaukee, WI
Standard-Thomson Corporation	Waltham, MA
Standard Oil	Washington, DC
Stemco, Inc. Truck Products	Longview, TX
Steiner Shipyard, Inc.	Bayou La Batre, AL
Stiegler, Inc.	Fargo, ND
Stone & Webster Engineering Corporation	Boston, MA
Storage Technology Corporation	Louisville, CO
Stripling-Blake Building Lumber Co., Inc	Austin, TX
Sun Electric Corporation	Crystal Lake, IL
Superior Technical Ceramics Corp.	St. Albans, VT
Syntex Corporation	Palo Alto, CA
T&H Building Supply	Redwood City, CA
TAPJAC Home Centers	Carthage, MO
TRW, Inc.	Cleveland, OH
TVI Creative Specialists	Washington, DC
TXI Industries	Dallas, TX
Tandem Computers Incorporated	Cupertino, CA
Tandy Brands, Inc.	Fort Worth, TX
Tanner Systems, Inc.	Sauk Rapids, MN
Tatum Enterprises	Honolulu, HI
Technivest, Inc.	South Bend, IN
Ted Grob Sales, Inc.	Grafton, WI
Tenneco Gas Pipeline Group	Houston, TX
Termiflex Corporation	Merrimack, NH
Terry Neese Personnel Services	Oklahoma City, OK
Texas Industries, Inc.	Dallas, TX
The Afro/Hispanic-American Chambers of Commerce	Bossier City, LA
The Americas Society	New York, NY
The Andersons	Maume, OH
The Black & Decker Corp.	Towson, MD
The Buffalo News	Buffalo, NY
The Calvert Gallery	Washington, DC
The Carlton Group	Richmond, VA

The Coca-Cola Company	New York, NY
The Collectors Guild Ltd.	Wilmington, NC
The Firestone Tire & Rubber	Akron, OH
The First Boston Corp.	New York, NY
The Free Press Media Group	Hendersonville, TN
The Fur Vault, Inc.	New York, NY
The Harodite Finishing Co., Inc.	North Dighton, MA
The Hartz Mountain Corporation	Harrison, NJ
The Hoover Company	North Canton, OH
The Krughoff Company	Naperville, IL
The Moser Bag & Paper Co.	Cleveland, OH
The New England Council, Inc.	Boston, MA
The Pillsbury Company	Minneapolis, MN
The Price Company	San Diego, CA
The Principal Financial Group	Des Moines, IA
The Quillen Group	Groton, CT
The Singer Company	Stamford, CT
The Stackpole Corp.	Boston, MA
The Telemarketing Company	Chicago, IL
The United Illuminating Company	New Haven, CT
The Upjohn Company	Kalamazoo, MI
The Valspar Corporation	Minneapolis, MN
The Will-Burt Company	Orrville, OH
Thomas J. Seitz Co., Inc.	Racine, WI
Tingley Systems, Inc.	San Antonio, FL
Toledo Harbor Warehousing, Inc.	Toledo, OH
Touche-Ross	Washington, DC
Tracor, Inc.	Austin, TX
Trail King Industries, Inc.	Mitchell, SD
TransTech, Inc.	East McKeesport, PA
Tri-M Corporation	Kennett Square, PA
Triangle Research Development Corp.	Research Triangle Park, NC
Trinity Industries, Inc.	Dallas, TX
Trouble Shooters, Inc.	Omaha, NE
Truck Trailer Manufacturers Association	Alexandria, VA
Trucking Services, Inc.	Dearborn Heights, MI
U.S. Axle, Inc	Pottstown, PA
U.S. Bearings & Drives of CA, Inc.	Santa Clara, CA
U.S. Council for International Business	Washington, DC
USG Corporation	Chicago, IL
Ultrasystems, Inc.	Irvine, CA
Unilever United States, Inc.	New York, NY
United Illuminating Company	New Haven, CT
United Industries Inc.	Wichita, KS
Vanport Manufacturing, Inc.	Boring, OR
Village Green	Midland, MI
Virco Manufacturing Corporation	Torrance, CA
Vocational Rehabilitation Associates, Inc.	Eugene, OR
W.H. Brady Co.	Milwaukee, WI
W.R. Grace & Company	New York, NY
WIS, Inc.	Toledo, OH
Wainoco Oil Corporation	Houston, TX
Waldorf Corporation	St. Paul, MN

Warner Communications, Inc.	New York, NY
Wayer Corporation	Landover, MD
Western Publishing Company, Inc.	Racine, WI
Weyerhaeuser Company	Tacoma, WA
Whale Scientific, Inc.	Commerce City, CO
Whirlpool Corporation	Benton Harbor, MI
White Plains Iron, Inc.	New York, NY
Wholesale Florists & Florist Suppliers of America	Arlington, VA
William A. Price & Associates	Wheaton, IL
William H. Taylor & Company, Inc.	Allentown, PA
Wingspread Corporation	New York, NY
Women Entrepreneurs	Lincolnwood, IL
Women Featherbone Company	Gainesville, GA
Woodhead Industries, Inc.	Northbrook, IL
ZinYeast, Inc.	Marshfield, WI

OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

JULY 08 1988

The Honorable John Glenn
Chairman
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

Thank you for your letter of May 20 providing additional questions for the record regarding the U.S.-Canada Free Trade Agreement (FTA). Our responses are attached.

I have also attached a list of U.S. practices that are not affected by the FTA on which Canada had sought U.S. concessions.

Sincerely,

Judith H. Bello

for Alan F. Holmer

AFH/mcw

Attachments

Chairman Glenn

Question 1 (a)

There is no doubt that the FTA will expose some regions and industries to increased competition -- and a few of those regions and industries will find it difficult to respond painlessly.

Could you list the sectors which will face the most competition from Canada?

Response

The Administration has not identified any industries as being threatened by the Agreement. However, we recognized that some industries such as nonferrous metals are import-sensitive and have provided for the longest phase out of tariffs in order to give them time to adjust.

Question 1 (b)

Which sectors will be in the positive position of gaining access to a Canadian market dominated only by relatively weak Canadian producers?

Response

Numerous U.S. industries believe that elimination of high Canadian tariffs will significantly improve their competitive position in Canada. Examples of such industries are furniture, paper and paper products, telecommunication equipment, printed materials, and machinery.

Question 2

The U.S.-Canada free trade talks have been watched closely by the rest of the trading world. The fate of a bilateral agreement between the two largest trading partners cannot help but have an impact on the GATT Uruguay Round.

However, there is not consensus on exactly what this impact will be. Some believe that implementation of the FTA could represent a blow to the GATT. They argue that free trade areas such as the one proposed in the FTA violate the multilateral principle of "most favored nation treatment" on which the GATT depends.

This principle demands that a GATT member treat other members the same as the nation receiving the most favorable tariff and other trade barrier treatment. The FTA, by providing for bilateral lowering of trade barriers, results in the U.S. and Canada treating each other much more favorably than we plan to treat other GATT members.

Other observers, on the other hand, agree that the FTA will have a favorable effect on the GATT. It will provide momentum for worldwide trade liberalization and serve as a model for multilateral negotiations in uncharted areas such as services and investment.

Would you comment on the effect the success or failure of the FTA will have on the Uruguay Round?

Response

This Agreement should reinforce our ability to gain meaningful results in the Uruguay Round. The completion of the Agreement has demonstrated the will and ability of two major GATT members to liberalize trade on a broad scale.

This is not to say that every element of the FTA is appropriate in the multilateral context, as the Agreement reflects the unique relationship between the United States and Canada. It should also be noted that the Agreement was concluded by two roughly similar countries, rather than among the more diverse economies that make up the GATT. Another key difference is in the structure of the Agreement, i.e., since this was a comprehensive negotiation, the participants are not free to select elements of the overall package.

Question 3 (a)

Does the Administration plan on beginning negotiations for free trade areas with other countries?

Response

The Administration has no plan at this time to negotiate further free trade area agreements. If the Administration were to consider negotiation of further such agreements, we would, of course, consult with the Congress.

Question 3 (b)

What is the status of the negotiations with Mexico?

Response

The United States and Mexico signed a bilateral framework agreement for trade and investment on November 6, 1987. That agreement established principles for the conduct of bilateral trade and investment relations. More importantly, that agreement established a consultative mechanism that can be used as a forum to negotiate the reduction of trade and investment barriers, to attempt to resolve disputes, or to clarify misunderstandings and improve understanding. Under the framework agreement, the two governments have already negotiated an agreement which provided for an increase in the U.S. import quotas for Mexican steel; the elimination of

Mexican quotas on beer, wine, and distilled spirits; and the elimination of Mexican import licensing requirements for agricultural planting seeds, certain perfumes and lotions, and chocolate confectionery.

In February, 1988, the two governments held in-depth bilateral discussions in Mexico under the framework agreement on the topics of Mexican policy on foreign investment, copyright protection, patent and trademark protection, Mexico's computer sector development program, the bilateral subsidies agreement, agricultural trade problems, and the exchange of trade data. Another round of similar bilateral discussions is planned for June 28-29 in Washington.

There have been no discussions to date under the framework agreement with respect to negotiating a bilateral free trade arrangement.

Senator Levin

General

Question 1 (a)

Since the FTA was signed on January 2, the Canadian government has taken several actions that clearly violate the spirit if not the letter of the agreement. In late January, they instituted new quotas on ice cream and yogurt imports from the U.S. On March 23, they put forward a duty remission program for the Canadian textile and apparel industry that will hurt the U.S. industry. Legislation pending in the Canadian Parliament would make it virtually impossible for U.S. film distributors to distribute U.S. films in Canada.

What retaliatory steps is the Administration contemplating to offset the effect of these Canadian actions? Are we going to do more than merely notify the Canadian government of our "concern" about their actions?

Response

Textiles

Originally, the Canadians were considering a duty remission scheme that would have foregone $200 million in duties annually. The program which was eventually announced covers $33 million in new programs and an extension of an existing program which covers $18 million.

The Canadian scheme is broken down into three parts:

(1) Duty Elimination on Certain Fabrics from All Sources:

Canada's MFN duty will be eliminated on the following products:

- o woven fabrics containing 35% or more by weight of silk;
- o woven fabrics containing 85% or more by weight of linen;
- o cotton woven fabric made of combed yarn of counts finer than 100 decitex;
- o fabric containing 20% or more by weight of metalized yarns;
- o hand-woven tweed fabric.

These products are not generally made, or made in small quantities, in the United States.

(2) Duty Elimination on Certain Fabrics of U.S. Origin, Partial Remission and Reduction on Certain Fabrics from Other Sources:

Canada will eliminate the FTA duty on U.S. fabric on January 1, 1989 (instead of January 1, 1998) and cut by 50% its MFN tariff on the following products:

- jacquard woven fabric; and
- light weight woven fabric (principally crepe).

This duty reduction program is limited to two types of specialty fabrics. Our manufacturers will still have an advantage in the Canadian market since no duties will be assessed on U.S. fabrics, while duties would apply, although reduced by 50 percent, on fabric from other sources. The specific fabrics subject to Canadian action are not manufactured in large quantities in either the United States or the rest of the world.

Canada will also establish new duty remission programs for the following products:

- denim imported from the U.S. for up to 20% of Canadian production (applies only to imports of U.S. denim);
- greige fabric for up to 30% of producers' Canadian value added;
- 3/4 length jackets made from synthetic and cotton and their fabric for up to 15% of domestic production; and
- blouses for up to 20% of domestic blouse production and up to 10% of domestic production of coordinates.

The duty remission schemes for fabrics from sources other than the United States are objectionable. But again, the limited nature of the duty remissions, along with the new benefits given to U.S. industry, mitigates adverse effects on U.S. producers.

(3) Duty Elimination on Certain Fabrics and Yarns from the U.S. Only:

Canada will eliminate the FTA duty on U.S. fabrics on January 1, 1989 (instead of January 1, 1998) for the following specific products (its MFN tariff would remain the same):

- corduroy;
- textured nylon yarn for hosiery;
- cotton leno woven fabric;
- cotton-wool blended fabric for shirts; and
- U.S. printing of Canadian spandex for swimwear.

They will also reduce the FTA duty on U.S. denim down to U.S levels by January 1, 1993, with elimination on January 1, 1998.

The measures provide benefits to U.S. companies beyond what was originally negotiated in the FTA. U.S. producers of cotton denim, in particular, will benefit substantially from this program. For example, the Canadian tariff for U.S. produced cotton denim is being reduced from 17.5 percent to 3.5 percent. The U.S. share of the Canadian denim market declined from 1986 to 1987. The reduced tariff rates for U.S. denim should allow our industry to recapture lost market share and more. Also, a tariff on corduroy fabric from the U.S, which is currently subject to a 17-25 percent duty, will be eliminated.

The existing duty remission order on shirts, foregoing $18 million in Canadian tariff revenues, was also extended.

The Canadian International Trade Tribunal has also been instructed to make recommendations by June 30, 1989 on: (1) reducing Canadian textile tariffs to the levels found in other industrialized nations and (2) accelerating FTA tariff cuts on textile and apparel products.

While the Administration is not pleased with the duty remission aspect of this program, we have no plans at this time to take further action. It should be kept in mind, however, that there are some benefits to the United States in this program beyond what was negotiated in the FTA. Due to the sensitivity of textiles, the U.S. phased out its duties over the maximum staging period. The Canadians followed and staged all their duties over 10 years. Under the announced program, Canadian tariffs on a number of products of interest to the U.S. will be eliminated immediately upon implementation of the Agreement.

Dairy

We have requested GATT consultations with Canada to examine their proposed quota regime for ice cream and yogurt. We will aggressively pursue our GATT rights if necessary.

Films

The legislation you referred to was never introduced in Parliament.

Question 1 (b)

Why did we agree to a specific provision in the FTA allowing the Canadians to institute new duty waiver programs until June 30, 1988? Do you anticipate that they will come up with more duty waiver schemes between now and June 30?

Response

One of the objectives of the United States Government in the FTA negotiations was the elimination of duty waiver programs linked to performance requirements, such as requirements to produce in Canada or export from Canada. The U.S. negotiators wanted to ban new performance-based duty waiver programs as of October 1987, but the Canadian Government refused to implement an obligation before Congress indicated the United States would accept the FTA. Thus, the Canadian Government would only agree to end new programs "after the later of June 30, 1988 or the date of approval of this Agreement by the Congress," as provided in the Agreement. At the end of the negotiations, our negotiators decided to accept this date so that the FTA would have a deadline for new programs earlier than the entry into force of the FTA.

We do not anticipate any new Canadian programs between now and Congressional passage of the agreement (which would now appear to be the operative date), but we cannot rule them out.

Autos: Canadian Safeguards

Question 2

In response to written questions submitted by Senator Riegle at a Senate Finance Committee hearing on March 17, Ambassador Yeutter commented on the so-called Canadian "safeguards" under the 1965 Auto Pact. He began his explanation of U.S. policy toward the safeguards by saying that they "currently have few effects on investment, production, and sourcing decisions by the Big-3 motor vehicle manufacturers," and that "the Big-3 routinely exceed the minimum levels set by Canada" for reasons unrelated to the safeguards.

Yet in response to Senator Riegle's next question, Ambassador Yeutter stated that changing the safeguards "was a U.S. objective from the very beginning of the negotiations."

If the Canadian safeguards "have few effects" and are as irrelevant to the current automotive trade situation as the Administration appears to believe, why was it a "U.S. objective from the very beginning of the negotiations" to get rid of them?

Response

We pursued this objective as a result of advice received from our private sector advisors, including the UAW and certain Members of Congress.

Question 3

Ambassador Yeutter told Senator Riegle that changing the safeguards was not only an "objective," but a "high priority" objective of the U.S. negotiators. Yet in a speech made at a conference on the FTA held on January 1, 1988, Deputy Treasury Secretary McPherson stated that "since the Canadians initially refused to discuss the pact, the first real discussion of the issue took place in the final days immediately preceding the October 3 agreement."

How do you square the fact that the issue wasn't discussed until just before the deadline with your claim that it was a "high priority" objective?

Response

The U.S. negotiators raised the issue with Canadian negotiators at the outset of the negotiations, and at numerous opportunities throughout the negotiations. However, it was only at the very end of the negotiations that Canada agreed to discuss the Auto

Pact safeguards and other auto issues.

Question 4

Won't our failure to get rid of Canadian performance requirements under the Auto Pact have an effect on our ability to get other countries to remove their performance requirements? If, for example, we decide to pursue a bilateral free trade agreement with Mexico, how can we credibly ask them to get rid of their automotive performance requirements when we have let Canada -- a far more developed country than Mexico -- keep theirs?

Response

The situation with Canada is unique. The Canadian performance requirements are contained in the Auto Pact, a bilateral agreement implemented by the Congress. Performance requirements maintained by other countries such as Mexico are unilaterally enforced.

Autos: Duty Remission

Question 5

Under the FTA, automotive duty remissions for exports to third countries are permitted to continue until 1998.

Will U.S. auto parts producers be adversely affected in terms of their sales to third country markets by the 10-year continuation of export-based duty remissions? For example, will U.S. parts makers attempting to sell their products in Japan lose business to Canadian parts producers selling to Honda and Toyota under duty remission programs?

Response

We have no information or analysis on the potential impact of these duty remission programs in third country markets. During the negotiations, our private sector advisors focused their attention only on the impact of these programs in North America.

Question 6

The FTA allows the Canadians to continue production-based duty remission programs until 1996. These programs will be used as a way to encourage Japanese and Korean companies -- Honda, Toyota, Suzuki, and Hyundai -- to use Canadian parts in their Canadian-based plants.

We agreed to allow the Canadians to use these production-based duty waiver schemes without seeing the actual remission orders or the contracts between the Canadian government and the auto companies involved.

Governor Blanchard has made a formal request under Section 305 of the Trade Act to get copies of the remission orders and the contracts. In response to Governor Blanchard's request, Ambassador Yeutter wrote to Canadian Ambassador Gotlieb on January 29 to request copies of these documents. To date, the Canadian government has not complied with this request.

a) In defense of the U.S. agreement to a seven-year continuation of production-based duty remission, the Administration has emphasized that "Canada did agree not to create additional remission programs in the future or extend or enhance those which currently exist." How will we be able to tell whether they are extending or enhancing programs which currently exist when we don't know anything about the programs which currently exist (because we haven't seen the remission orders or the contracts)?

Response

We are continuing to seek information on these programs from the Canadian Government. We hope to have technical consultations with Canada on this matter shortly.

b) If we cannot obtain precise information about the extent of this duty remission program, how will the United States government express its understanding of the parameters of the program?

Response

The draft implementing legislation prepared by the Senate Finance Committee and the House Ways and Means Committee requires the USTR to undertake a study of the Canadian production-based duty remission programs to determine whether they are GATT consistent. During that study, USTR will need to establish the parameters of the programs.

c) By explicitly agreeing in the FTA to allow the production-based duty remission program to continue until 1996, has the Administration foreclosed the possibility of a successful 301 case being brought against this duty remission program?

Response

No.

Autos: Rule of Origin

Question 7

One negotiating position that all elements of the U.S. auto industry agreed upon was a 60 percent Rule of Origin for automotive products. The Canadian parts industry also strongly favored having a Rule of Origin higher than 50 percent. Yet the Canadian government negotiators apparently would not accept the U.S. proposal for a 60 percent Rule of Origin.

How do you account for the Canadians' refusal to accept something that is so clearly in the interests of the North American auto industry? To what extent did pressure from the Japanese and Korean transplants in Canada play a role?

Response

While there was some recognition by the Canadians of benefits to Canadian auto parts interests of a higher origin requirement, there appears to have been overriding concern that it would be too restrictive for new automotive manufacturing subsidiaries that have invested in Canadian operations over recent years.

Autos: Joint Ventures

The Administration has told members of Congress that the FTA "freezes" the Auto Pact -- that is, no companies other than those holding Auto Pact status by the start of the 1989 model year will qualify for Auto Pact or Auto Pact-like benefits. However, the status of joint venture companies which are partially owned by current Auto Pact members remains ambiguous.

Under Annex 1002.1 of the FTA, CAMI Automotive, Inc., a joint venture between General Motors and Suzuki, has been specifically made eligible for Auto Pact status. Secretary of Commerce Verity, in a February 23, 1988 letter containing responses to questions submitted by Congressman Dingell, stated that "future joint ventures will be eligible for Auto Pact status only if a company now eligible for such status is a majority owner (51% or more) of the joint venture. If a joint venture meets this requirement, it can trade in automotive products either within or outside the Auto Pact framework for imports into Canada."

Secretary Verity's explanation contradicts my understanding of the application of the FTA to Auto Pact membership.

Please clarify the Administration's understanding of Article 1002 and Annex 1002.1 of the FTA, as these provisions relate to the possibility of future joint venture companies becoming eligible for Auto Pact status, with particular reference to the following questions:

a) Will future joint ventures where one of the partners is now eligible for Auto Pact status and where the Auto Pact company is the majority owner be eligible for Auto Pact status?

b) Will any Canadian manufacturers other than those listed in Annex 1002.1 become eligible for Auto Pact status, either before or after January 1, 1989?

Response

Article 1002 of the FTA provides that Canada shall not grant Auto Pact membership to any Canadian manufacturer not listed in Part

One of Annex 1002.1. This would prohibit granting Auto Pact status to any non-listed company regardless of whether or not the company is a joint venture with a listed company.

Any attempt to circumvent this provision by a cooperative venture using the multilateral sourcing granted to the Auto Pact member, without creating a new corporate entity, would violate the provision that duty waivers granted to existing participants shall not be "expanded."

The footnote to Annex 1002.1 prevents circumvention through acquisition of effective control or substantial asset ownership if such acquisition significantly alters the fundamental nature, scope or size.

Beer

Question 9

Beer and malt-containing beverages are specifically exempted from the national treatment provisions of the FTA. This means that discriminatory Canadian practices which inhibit the sale of U.S. beer in Canada will be allowed to continue unabated.

What hope can you offer to brewers like Strohs and G. Heileman who would like to sell in Canada? Should they wait for the next Free Trade Agreement? Should we retaliate to force an end to this Canadian discrimination?

Response

While the FTA eliminates or modifies many Canadian discriminatory policies affecting distilled spirits and wine, the Canadians were unwilling to negotiate similar liberalization for beer. Nevertheless, the FTA does eliminate tariffs on beer, and provides that any new Canadian policies affecting beer cannot discriminate between Canadian and U.S. products.

We have maintained our rights under GATT on beer. The EC brought a GATT case on the Canadian discriminatory policies affecting alcoholic beverages including beer. The panel reviewing this case found Canada's practices to be inconsistent with the GATT. The GATT Council has accepted the panel report, and Canada is considering its options for addressing the GATT concerns. To the extent that Canada agrees to change its policies on beer and make them GATT consistent, we will expect to benefit as well.

Printing

Question 10

The FTA will get rid of the extremely high Canadian tariffs on printed materials (28 percent on some products) within a five-year period. But the FTA does nothing to get rid of Canadian non-tariff barriers on printed goods. To name but two of the most significant ones: Canada charges discriminatory postal rates of up to six times the normal rate on magazines and newspapers printed in the U.S. And Canada prohibits the entry into Canada of printed publications containing more than five percent advertising content directed at a Canadian audience. These and other barriers were lumped under the rubric of "cultural protections" and specifically excluded from the FTA.

What will the U.S. do to challenge these Canadian barriers before or after the FTA goes into effect?

Response

USTR is currently examining the possibility of pursuing GATT cases on discriminatory postal rates and the embargo on magazines.

Potatoes

Question 11

Potato growers face substantial barriers to marketing their product in Canada. Tariffs aren't the problem here: Canadian subsidies, and restrictive container laws and easement requirements effectively prevent U.S. potato farmers from marketing potatoes and potato products in Canada to any significant degree.

The National Potato Council has proposed language for the FTA implementing legislation that would address some of their concerns. These include assurances that Canada will not misuse the new snap back tariff provision, specific timetables for the harmonization of technical issues, and more explicit assurances that subsidy issues will be addressed in the future.

Has the Administration considered the Potato Council's suggestions and does it support any or all of them? In the absence of such implementing legislative language, how can U.S. potato growers be assured of fair competition with Canadian potato growers?

Response

At the request of the National Potato Council, language regarding its interests has been included in the draft implementing legislation prepared by Finance and Ways and Means. In particular, the Council was most anxious to include authority to negotiate a VRA on potatoes with Canada. The Administration has agreed to accept this language.

U.S. Measures Not Affected by FTA

1. Domestic subsidies (both federal and state)
2. Federal Buy America preferences and restrictions
   - a) Small and Minority Business Set Asides
   - b) Surface Transportation Assistance Act
   - c) DOD
3. State procurement preferences
4. Sugar Quotas, Existing Quotas on Sugar-Containing Products, Refined Sugar Fee, Dairy Quotas and other Existing Section 22 Quotas (Peanuts, Peanut Products, Cotton)
5. Maintain ability to use Section 22 except in very few instances
6. Section 201 relief on shakes and shingles
7. Specialty steel Section 201 relief
8. Existing investment restrictions at the federal and state level. For example in:
   - a) Nuclear power
   - b) Broadcasting
   - c) domestic shipping
   - d) domestic aviation
9. Existing service trade barriers; freedom to expand coverage of Jones Act
10. Maintain AD/CVD
11. Sections 337 and 301 maintained
12. Lumber MOU maintained
13. EEP to 3rd countries (Canada wanted prior consultations) (but not to Canada any more)
14. Agricultural Marketing Orders
15. Log export restrictions
16. CCC and FAS export promotion programs
17. Ability to protect plant and animal health
18. Ability to inspect food

88-19

SUMMARY STATEMENT OF WILLIAM CUNNINGHAM, LEGISLATIVE REPRESENTATIVE AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS, BEFORE THE SENATE GOVERNMENTAL AFFAIRS COMMITTEE ON THE U.S.-CANADA FREE TRADE AGREEMENT

MAY 9, 1988

The Federation believes that the proposed U.S.-Canada Free Trade Agreement will do little to solve the serious trade problems that exist between the U.S. and Canada, and may in fact make them worse.

There is little in the agreement that will benefit American Workers. It does not address the huge imbalances in trade in goods between the U.S. and Canada, nor the large exchange rate differential which has contributed importantly to those imbalances. The tragic experience of the U.S. over the last eight years has amply demonstrated the importance of exchange rates in international trade, and the failure of the agreement to address this factor is, alone, sufficient grounds for Senate disapproval.

The agreement itself, while moving in the direction of "market" determined trade does not by any measure establish free trade. Significant inequities in trade practices will remain, even after the ten year transition period. What has been negotiated, is not a free trade agreement, but a new bilateral trade arrangement, and the Senate should judge the proposal on the basis of fairness, reciprocity, and national interest. Regrettably, the agreement falls far short of meeting these goals. A whole series of Canadian practices that discriminate against U.S. production have been grandfathered. By prohibiting the introduction of new measures to regulate or manage trade, Canadian advantage has been solidified.

The AFL-CIO is also concerned that this proposed agreement will be used as a blueprint for bilateral negotiations with other countries as well as the Uruguay Round of negotiations under the General Agreement on Tariffs and Trade (GATT).

The AFL-CIO particularly objects to provisions in the agreement that would:

- Establish separate procedures for U.S.-Canada trade;
- Maintain Canadian tariff advantages for ten years;
- Open additional federal government procurement to Canadian bidding;
- Permit continued Canadian protection of a variety of industries;
- Reduce U.S. energy independence by permitting the export of 50,000 barrels per day of Alaskan oil and prohibit controls on the import or export of electrical power;
- Weaken U.S. immigration law.
- Retain favorable treatment in auto trade for Canada;
- Permit Canadian advantage for certain agricultural commodities.
- Disadvantage certain U.S. mineral industries.
- Maintain existing inequities between the U.S. and Canada concerning the treatment of the trucking industry.
- Encourage greater imports of textiles and apparel.

At the very least, America should demand reciprocal treatment in trade. This agreement falls far short of even that modest goal, and should be rejected by Congress.

88-19

STATEMENT OF WILLIAM CUNNINGHAM, LEGISLATIVE REPRESENTATIVE AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS BEFORE THE SENATE GOVERNMENTAL AFFAIRS COMMITTEE ON THE U.S. -CANADA FREE TRADE AGREEMENT

MAY 9, 1988

Mr. Chairman, members of the committee, the AFL-CIO appreciates this opportunity to present its views on the proposed U.S.-Canada Free Trade Agreement. The Federation believes that this agreement, signed by President Reagan and Prime Minister Mulroney on January 2, 1988, will do little to solve the serious trade problems that exist between the U.S. and Canada, and may in fact make them worse. The AFL-CIO joins the Canadian labor movement in opposing this agreement because we share the view that governments must play a positive role in managing relations between countries and that increased reliance on so-called "market forces" will not necessarily promote economic growth and equity.

Generally speaking, there is little in the agreement that will benefit American workers. It does not address the huge imbalances in trade in goods between the U.S. and Canada, nor the large exchange rate differential which has contributed importantly to those imbalances. Its silence on the issue of exchange rates is particularly significant, and raises real questions concerning the validity of the entire exercise. How can American industry and agriculture hope to compete on a fair and equitable basis when current exchange rates have the effect of conferring a 28% cost advantage on Canadian producers? The exchange rate advantage of the Canadians operates much like a tariff on the Canadian side of the ledger, raising the price of U.S. goods by 28%. But the exchange rate differential is worse than a tariff on the export of Canadian goods to the U.S. It cheapens their goods by 28% in the U.S. market, giving them a substantial advantage over U.S.

goods. The tragic experience of the U.S. over the last eight years has amply demonstrated the importance of exchange rates in international trade, and the failure of the agreement to address this factor is, alone, sufficient grounds for Senate disapproval.

The agreement itself, while moving in the direction of "market" determined trade does not by any measure establish free trade. Significant inequities in trade practices will remain, even after the ten year transition period. What has been negotiated, is not a free trade agreement, but a new bilateral trade arrangement, and it should be judged on the basis of fairness, reciprocity, and national interest. Regrettably, the agreement falls far short of meeting these goals. A whole series of Canadian practices that discriminate against U.S. production have been grandfathered. By prohibiting the introduction of new measures to regulate or manage trade, Canadian advantage has been solidified.

It appears, that the trade-off for the continuation of discriminatory Canadian practices is greater access for U.S. investment and services. Even here, however, reciprocal treatment has not been achieved, and the U.S. has forfeited the right to employ measures that may prove necessary in the future. The AFL-CIO has long been concerned over the priority given to negotiations on investment and trade in services. The principal trade problem facing the U.S. is undeniably the massive trade deficits occurring in the manufacturing sector and the resultant loss of employment. Emphasis on "liberalizing" trade in services and investment flows will have little impact on this central issue, and may in fact contribute to the deterioration of the domestic manufacturing sector if discriminatory practices of other countries in the goods area are left intact as the price for reductions in barriers to services and investment. This problem is regrettably demonstrated by the telecommunications section of the agreement. While the U.S. has gained greater access for telecommunications services, Canadian procurement policies that discriminate against telecommunication goods produced in the U.S. remain in place. Further, what may appear to some as "barriers" to service trade on international investment are in fact proper and even essential social and economic policies in both the U.S. and foreign economies. While unrestricted flows of services and investment may be important to certain corporate interests, this does not make them significant for the economy as a whole.

The AFL-CIO is also concerned that this proposed agreement will be used as a blueprint for bilateral negotiations with other countries as well as in the Uruguay Round of negotiations under the General Agreement on Tariffs and Trade (GATT). Recent pronouncements by President Reagan and Vice President Bush concerning a free trade agreement with Mexico have served to underscore that worry. The U.S. can ill afford to continue to ignore the damage done by one sided trade to the domestic manufacturing sector.

The AFL-CIO Executive Council in a statement adopted February 19, 1988 (Attached) outlined objections to a number of specific provisions of the agreement including the following:

* The separate procedures established for Canada regarding trade remedy law are not only unwise in and of themselves, but establish an extremely bad precedent for negotiations with other countries. These provisions have the potential of limiting the ability of the U.S. to take action under the countervailing duty and antidumping statutes, as well as Sec. 301 and the escape clause. Not only is there little assurance that Canadian subsidies (many of which are provincial) will end, but many discriminatory Canadian practices have been essentially endorsed.

* The existing inequities between the U.S. and Canadian implementation of the 1965 Auto Pact are retained, while the growing use of imported parts is not sufficiently discouraged. The production and Canadian value-

added requirements imposed on Canadian auto producers are continued, while the U.S. has no similar safeguards. The North American value required for duty-free entry into the U.S. is too low to prevent erosion in the North American content of vehicles produced by U.S. companies, and would not significantly increase the North American value of vehicles assembled by foreign-owned "transplant" operations.

* The existing inequities between the U.S. and Canada concerning treatment of the trucking industry will continue. Currently, Canada's restrictions on trans-border trucking severely limit the ability of U.S. companies to compete in that country, while Canadian companies have been able to operate with relative freedom in the U.S. since U.S. trucking deregulation was approved in 1980.

* Provisions concerning textiles and apparel will provide a major incentive for imports from elsewhere to flood into both countries to take advantage of our enlarged market and of the inability of Customs to properly monitor the trade flows across our huge border. The existing quota agreements of both countries will be both more fully filled and more highly circumvented.

* Tariff rate advantages and duty remission programs will not be eliminated for up to ten years thereby encouraging Canadian production and discouraging U.S. exports. The U.S. has agreed to phase out the recently enacted customs-user fee for Canada, which only amounts to .17%.

* Additional U.S. Federal government procurement is opened for Canadian bidding, with a value six times greater than the amount allowed for U.S. producers. The U.S. needs to strengthen, not weaken, buy American laws and regulations.

- U.S. immigration law is weakened by substantially easing the ability of "business and professional" persons to temporarily enter the U.S. For those covered, the agreement eliminates prior approval procedures, petitions, or labor certification tests.

- A wide range of Canadian industries and agricultural commodities would continue to receive protection, or favorable differential treatment. They include autos, telecommunications, trucking, wine and beer, grain, poultry and eggs, fish, plywood, and so-called cultural industries.

- Of specific concern are issues involving natural resources including uranium, coal, and oil. The AFL-CIO believes that this agreement will weaken U.S. energy independence and have a negative impact on the employment of workers in the energy sector. The prohibition on controls for imported uranium will have a disastrous impact on an already severely depressed industry. The export of 50,000 barrels per day of Alaska oil will result in greater reliance on foreign sources. The prohibition on import or export controls for electrical power will intensify U.S. reliance on Canadian power in many parts of the country. This will serve to depress construction of electrical power generating stations and reduce demand for U.S. mined coal.

The AFL-CIO believes that this agreement is totally inadequate to the task of solving the trade problems that exist between the U.S. and Canada. The agreement does not promote U.S employment and production which would reduce the large U.S. trade deficit with Canada. At the very least, America should demand reciprocal treatment in trade. This agreement falls far short of even that modest goal, and should be rejected by Congress.

Attachment

Statement by the AFL-CIO Executive Council

on

U.S.-Canada Free Trade Agreement

February 19, 1988
Bal Harbour, FL

The U.S.-Canada Free Trade Agreement signed on January 2, 1988, and awaiting Congressional consideration, will do little to solve the serious trade problems between the U.S. and Canada and may in fact make them worse. The AFL-CIO joins our brothers and sisters in the Canadian labor movement in opposing this agreement. We share the view that governments must play a positive role in managing relations between countries and reject the notion that "market forces" alone will promote economic growth and equity.

Specifically, the agreement does not address:

* The huge U.S. imbalances in trade of goods with Canada;
* the large exchange rate differential.

While moving in the direction of "market" determined trade, the agreement does not, by any measure, establish free trade. Significant inequities in trade practices will remain, even after the ten-year transition period.

The AFL-CIO particularly objects to provisions in the agreement that would:

* Establish separate procedures for U.S.-Canada trade;
* Maintain Canadian tariff advantages for ten years;
* Open additional federal government procurement to Canadian bidding;
* Permit continued Canadian protection of a variety of industries;
* Reduce U.S. energy independence by permitting the export of 50,000 barrels per day of Alaskan oil and prohibit controls on the import or export of electrical power;
* Weaken U.S. immigration law.
* Retain favorable treatment in auto trade for Canada;
* Permit Canadian advantage for certain agricultural commodities.
* Disadvantage certain U.S. mineral industries.

The AFL-CIO calls upon Congress to reject the U.S.-Canada Free Trade Agreement.

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SENATOR GLENN'S

QUESTIONS FOR THE RECORD

Mr. William Cunningham

1.

During negotiations on the FTA, both sides were greatly concerned with the issue of subsidies and national remedies to counteract subsidies. The FTA approaches these problems with a system of binational panels which will review national antidumping/countervailing duties determinations.

(a) Relative to our present process for dealing with Canadian subsidies, does the United States give up anything by agreeing to this new system?

(b) What do we gain?

ANSWERS FOR SENATOR JOHN GLENN

Regarding your own question:

The AFL-CIO has serious reservations about the establishment of the binational panels. These reservations are based not only on Constitutional concerns -- a very serious problem -- but also on a substantive one. The AFL-CIO and many members of Congress have worked to strengthen our trade laws, and the binational panel is a means to "short circuit" these laws. The issue of subsidies, for example, is the most nettlesome in the Canadian Tree Trade Agreement, and the binational pact undermines a U.S.-based determination on this most crucial set of issues. We oppose their creation.

Senator Levin's Written Questions
Governmental Affairs Committee hearing on
U.S. - Canada Free Trade Agreement
May 9, 1988

PANEL II: BILL CUNNINGHAM, AFL-CIO

(1) **How should members of Congress react to endorsements of the FTA by companies who have operations on both sides of the border? Does their enthusiastic support for the FTA indicate that both countries will benefit -- that it is a "win-win" situation?**

(2) U.S. advocates of maintaining the 1965 Auto Pact argue that it has allowed the integration of the North American auto industry. Beyond the auto industry, a more general argument is made that removing trade barriers between the two countries will make industries in both countries more efficient. **Is there anything wrong with this argument as it relates to trade between the U.S. and Canada**

Answers for Senator Levin:

(A) The comparison of the Canadian Trade Agreement with that of the Auto Pact is instructive. Based on this experience, it appears that multi-national corporations want to take advantage of a cheaper labor market in whichever country it exists. So, from our perspective, it is not a win-win situation for either U.S. or Canadian workers.

(B) We would agree with the idea of removing all trade barriers. However, as you are aware, Sen. Levin, the agreement does not do that. It keeps many Canadian barriers in place. As for your argument that the Auto Pact would be a good model, I know you are being facetious. The Auto Pact has retained advantages for Canada that have long outlived their economic justification. Indeed, it is our strong view that the North American treatment of Canadian products should be expanded from 50% to 60%, and that the entire Auto Pact should be redrafted to reflect altered economic circumstances in both Canada and the United States.

STATEMENT
on
THE CANADA-U.S. FREE TRADE AGREEMENT
before the
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS
for the
U.S. CHAMBER OF COMMERCE
by
William T. Archey
May 9, 1988

Mr. Chairman and members of the Subcommittee, I am William T. Archey, Vice President International for the U.S. Chamber of Commerce on whose behalf I am testifying today.

The Chamber strongly supports the Free Trade Agreement. Because the Chamber's membership of nearly 180,000 businesses and organizations is so extensive and diverse, the decision to support the agreement was not made lightly. In fact, the Chamber's Board of Directors did not endorse the agreement until its meeting on February 10. The Board considered not only the views of the Chamber's Canada-U.S. Relations Committee but also those of its other committees covering such areas as international trade and investment, small business, natural resources, and agriculture.

In supporting the agreement, the Chamber recognized that the pact failed to deal with all outstanding disputes between the two countries and that it would entail serious adjustment problems for some industries and individual producers. However, the Chamber believes that the agreement should be implemented because of the long-term benefits that it would bring to the economies of Canada and the U.S. as a whole.

First, let me summarize the benefits of the agreement and the main factors behind the Chamber's decision to support the agreement and work for its approval by the Congress.

- The Chamber has a long-standing interest in Canada-U.S. Relations, going back to 1933 when it organized a joint committee with the Canadian Chamber of Commerce. Chamber decisions on Canada-U.S. issues reflect not only the endorsement of its domestic membership but also a consensus with the national Canadian organization.
- A successful bilateral agreement with Canada will restore momentum to multilateral efforts to liberalize trade and investment.
- The trade agreement will provide U.S. exporters, particularly in the small business sector, with lucrative new opportunities.
- Restrictions on U.S. investment in Canada will be drastically curtailed; thus, many new opportunities will open to U.S. industries.
- The Chamber is working actively with its members, particularly its federation of state and local chambers, to convey their support for the agreement to Congress.

Background of the Canada-U.S. Relations Committee

The Canada-U.S. Relations Committee was organized in 1933 as a joint committee of the U.S. and Canadian Chambers of Commerce. It was organized in response to the Reciprocal Trade Agreements Act in an effort to pave the way for a bilateral reduction of the high Smoot-Hawley tariffs then in force. Over the years, it has had an impact on a great variety of issues bearing on economic relations between the two countries -- from acid rain to the organization of the International Joint Commission.

The Committee consists of two national sections, each operating under the aegis of its national chamber. It operates on a consensus basis -- before taking action on an issue, it must have the agreement of both national sections. This means that recommendations and policy positions of the Committee embody the views of representative and responsible groups in both countries. Accordingly, this consensus approach means that the Committee's support for the agreement reflects the views not only of American business but also of Canadian business. The Canadian Chamber speaks for individual corporations and for chambers of commerce and trade associations in all regions and sectors of Canada.

Further, the long history of the Committee reinforces the soundness of its position on the agreement: it is not an ad hoc arrangement, but one that has been involved intimately in the pros and cons of numerous bilateral issues since well before the Second World War.

The approach of the Chamber's Committee to the proposed agreement, after declaring support for its goals, was to try to develop answers to unresolved aspects of the proposal. Thus, research studies were commissioned to determine the benefits for both countries that could be expected. Several studies focused on the precise form of a workable dispute settlement mechanism. The Committee also surveyed the positions on the proposal of corporations, trade associations, state and local government agencies, and state and local chambers of commerce.

Copies of the studies and reports have been distributed widely in Canada and the U.S., and the Chamber's Committee is currently taking a special poll of state and local chambers. Many of those organizations are contacting their Congressional representatives directly, while the Committee will assemble the responses into a simple report for the attention of your Committee.

Positive Direction for Trade Policy

The road to fair trade is a difficult one, and the ultimate goal of a worldwide fair trade system is probably something that will never be achieved. The U.S. must keep working toward that goal, however, as the alternative is to encourage the growth of trade restrictions and other forms of protectionism, which are the antithesis of economic growth and stability. As Philip H. Trezise of the Brookings Institution observed, in commenting upon the close integration of the Canadian and U.S. economies that would result from the agreement:

> To believe that this interdependence will make one or the other or both of the nations poorer requires the parallel belief that a U.S.-Canadian border studded with obstacles to the movement of goods, services, and capital must contribute positively to national welfare in both countries. (The Brookings Review, "Free Trade With Canada," Winter, 1988)

In recent years, efforts to achieve trade liberalization through traditional multilateral channels, most notable the General Agreement on Tariffs and Trade (GATT), have lost momentum. Due to a combination of factors, including sluggish demand in industrialized economies and the debt burden of developing countries, the emphasis in national trade policies has leaned to import restrictions and subsidized export activity. The discipline necessary for firm commitments to the principles of the Uruguay Round of GATT negotiations has been lacking.

The Chamber endorses strongly the view that a successful agreement with Canada would restore impetus to trade liberalization on a multilateral basis, not only in the GATT but also in all the other complementary free trade regimes. It would encourage the initiation of similar bilateral U.S. agreements with other countries. Above all, it would provide future administrations with the momentum to keep trade policy on a positive and open international course.

An eloquent testimonial to the worldwide benefits of a successful agreement between Canada and the U.S. was recently expressed in a letter to the Chamber from the Director-General of the Confederation of British Industries. It stated in part that:

> . . . we note in particular that the agreement has been concluded within the framework of GATT Article 24 and welcome the willingness of the signatories to address the new issues such as services, investment and agriculture, which are also under consideration in the current GATT round . . . we believe it will be a step forward in securing the principles of free and fairer trade to which international business subscribes.

Trade and Investment Opportunities

Ten years ago, when economic nationalism was at its zenith in Canada, it would have been inconceivable to have predicted the elimination of Canada's trade and investment barriers to the degree provided in the agreement. For American exporters, the tariff concessions alone would have justified the agreement. And, as is widely acknowledged, the provisions for investment, services, energy, and other specific sectors make the pact the most comprehensive bilateral agreement ever negotiated.

As a general rule, larger corporations exporting to Canada are well aware of the opportunities created by the agreement. In mid-1986 the Chamber surveyed a group of 800 U.S. corporations for their views on the proposed agreement. The response was overwhelmingly positive in terms of expected efficiencies and sales opportunities. Virtually all of the companies surveyed were already active in Canada, so they were well qualified to judge the effects of a free trade agreement. Among small- to medium-sized firms there is generally less awareness of the opportunities provided by the agreement. Nevertheless, the opportunities are considerable, and the Chamber is working through its network of affiliated local and state chambers to convey the message to interested companies.

Major impediments to small business exports to Canada have been, in addition to high tariffs, Canadian customs and immigration procedures and the plethora of rules and regulations that characterizes the Canadian business environment. It is much more difficult for smaller firms to persevere in the face of those difficulties, lacking the expertise and general resources available to larger firms. Many small business firms, therefore, have been discouraged in their efforts to penetrate the Canadian market. Accordingly, a significant consequence of the agreement will be to stimulate exports of these firms.

They will also have a special inducement through the Canadian decision to lower the threshold on federal government procurement to $25,000. This is estimated to open up $500 million annually to U.S. firms. Also, small competitive U.S. exporters will find that they have a special advantage over foreign exporters to Canada who still have to pay the high Canadian tariff.

Conclusion

The Chamber believes that the proposed agreement would provide very substantial benefits to both countries in terms of increased trade and investment and the implications of improved competitiveness. Further, the commitments on issues like services trade and intellectual property protection would improve the chances for similar breakthroughs in the GATT and other arrangements.

The Chamber is sensitive to the adjustment problems that the agreement would entail for some firms and industries. Clearly, while the U.S. can anticipate increased exports to Canada, it can also expect more imports from Canada. Still, both countries must remember that the agreement was never intended to remove every friction between them. It represents a negotiated process, and the best way to judge it is to ask if it is the best deal both could get, not if it is the best possible deal.

Nevertheless, sectors of the U.S. economy will face new competition as a consequence of the agreement. In some cases, competitive advantages will reflect differences in government support systems. It is particularly important that both governments make firm commitments to continue to work for the resolution of such differences, and Congress could insist upon this when drafting the legislative language.

The Chamber believes that the various outstanding disputes between Canada and the U.S., as well as those triggered by the agreement, should be placed on a special agenda where they can be considered in a cohesive fashion. It is essential that affected industries be provided with the assurance that their concerns are being addressed with urgency. They must be satisfed that the agreement marks not the end, but a new beginning in bilateral relations.

In closing, the Chamber reiterates that its support for a comprehensive bilateral trade agreement has evolved through a long process of consultation with business and government at all levels and in all parts of Canada and the U.S. It is convinced that the long-term benefits will far outweigh the cost of adjustment to new competition that may be necessary on both sides of the border.

THE US-CANADIAN FREE TRADE AGREEMENT:
WHAT'S AT STAKE?

Statement of
PAUL WONNACOTT

Professor of Economics
University of Maryland

Presented to
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
May 9, 1988

Mr. Chairman, by way of introduction, let me mention that I have been working on the issue of free trade between the United States and Canada for about 25 years, off and on. Much of this work has been done jointly with my brother, Ron, who is an Economics Professor at the University of Western Ontario. When we first began to look at this subject, we thought that there would probably be gains to each of the two countries from a bilateral agreement, but that these gains would not be very large. As we looked in more detail at the economic effects of free trade, we found that we had to revise our estimates upward, particularly on the Canadian side. In our 1967 book, we came to the conclusion that, if a free trade agreement had been introduced in the early 1960s, the effect would have been an increase in real Canadian GNP of more than 10%. I hasten to add that we expect substantially smaller gains from the present agreement, mainly because of the degree to which tariffs have already been cut in the past two decades.

Before getting into some of the details, let me state the bottom line. I strongly recommend that the free trade agreement (FTA) be ratified. The sources of gain include:

1. A phased elimination of tariffs between the two countries over a 10 year period. As Canadian tariffs are generally two to three times as high as US tariffs, the United States has a particular interest in tariff elimination.
2. Greater scope for economies of scale. Because the Canadian market is so much smaller than the US market, it is Canada that stands to gain the most on this point.

3. A substantial reduction in the sources of friction between the two countries, particularly regarding automobiles and investment flows.
4. Dispute settlements procedures which reduce the risk of conflicts over trade policy.
5. Greater stability in energy markets, with the United States gaining greater assurance of access to Canadian energy supplies, while Canada gains greater assurance of access to US energy markets.

Traditionally, in estimating the gains from free trade, economists have focused on redirection of resources that comes with lower tariffs. Capital and labor are encouraged to move out of low-productivity industries into higher ones. Recent work -- such as that of Bob Hamilton and John Whalley (1985) -- suggests combined gains for the two countries together of something like $4 or $5 billion per year from this resource-reallocation effect (at 1988 prices, and in an economy of the present size). This estimate should not be considered precise. Using a different model, Drusilla Brown and Robert Stern found very little net effect of resource allocation; their main conclusion was that bilateral free trade would cause a transfer of about $1.5 billion of real income from Canada to the United States (again, at 1988 prices). On the other hand, these studies focus on standard industrial sectors, and consequently leave out some of the larger sources of potential gain. Most notably, there is no estimate of the efficiency gain in the energy sector. The free-trade agreement will lead to greater use of Canadian hydroelectric power by the Northern States. Gains from this source are, however, very difficult to estimate; they arise from the difference in cost between new dams and hydro power in Canada, and the more expensive alternative sources of energy in the Northern States, such as new nuclear power plants. The costs of nuclear power are notoriously difficult to estimate in advance.

Even if full account could be taken of such complications, the resource allocation effect would still be overwhelmed by the efficiencies that will come from larger-scale production. This conclusion, which was set out in our early study in 1967, has been confirmed by more formal and detailed work in the past decade, particularly that of Rick Harris of Queen's University (1985). Harris estimates that, if a free trade agreement had been in effect in 1980, the gains from greater economies of scale would have been in the $20-$25 billion range. In nominal dollar terms, he believes that this figure has not changed much since 1980.

What we are talking about, then, is an overall annual gain to the two countries in the range of $25 to $30 billion at current prices. How would this gain be divided? The standard conclusion -- which I share -- is that most of the gains will go to Canada because of the importance of economies of scale.

Economies of scale mean that most of the adjustment will occur within industries; movements of workers and capital from one industry to another will be small. Brown and Stern find that employment should change by no more than 0.3% in any US industrial sector as a result of bilateral tariff elimination (1987, p. 177) -- that is, no more than 0.03% per year over the ten-year period when tariffs are being phased out. Thus, interindustry adjustments caused by free trade will be very small compared to other adjustments continuously occurring in our dynamic economy.

Nevertheless, objections have come from a number of industries. For example, in the automotive industry -- which presently accounts for more than one third of total trade between the two countries -- objections have been heard from the United Auto Workers and from some US parts producers. Interestingly, the Canadian Auto Workers and a number of Canadian parts producers have also objected. This raises an obvious puzzle: how can both sides be worse off, particularly as the net effect of the agreement should be some reduction in imports from overseas producers?

The answer is that they are not both worse off. The US union and parts firms are objecting because they did not get what they wanted most. They wanted a complete elimination of the Canadian safeguards associated with the existing Auto Pact, while the Canadian Auto Workers wanted no change. The FTA provides a compromise. The scope of the Canadian safeguards is narrowed; Japanese and other new overseas producers will not be eligible for membership in the Auto Pact. Canada also agreed to eliminate its ill-conceived automotive duty remission programs (except for exports to third countries). For parts producers, there was an effective increase in the North American content requirement -- although a smaller increase than they wanted. Presumably, the way to judge a new agreement is to compare it to the existing situation, not just to the package that you would most like to have. From the viewpoint of the US auto industry -- workers, parts producers, and vehicle manufacturers alike -- the FTA represents an improvement over the status quo. Furthermore, if the FTA is rejected, it seems unlikely that we can go back to the status quo; before the FTA, we were moving toward a confrontation with Canada over automotive trade. If the FTA is rejected, it will be imperative for new negotiations to begin on outstanding automotive problems. In such circumstances, it is hard to see how any Canadian government would have the political elbowroom to negotiate an agreement more to the liking of the U.S. unions and companies. The result would probably be messy. (More detail on the auto sector is provided in an Appendix.)

Free trade between the United States and Canada is an idea whose time has come. For more than a century -- dating back before the establishment of the Canadian nation -- a bilateral free trade agreement has been considered periodically. But it takes two to make an agreement. When Canada was willing, the United States was usually reluctant, and vice versa. The only time the two countries came to an agreement was 1911, the year of President Reagan's birth. That agreement was rejected at the polls by the Canadian electorate. If the present agreement is turned down, will we have to wait many decades for the next chance? Will we have to wait until someone born in 1988 grows up and becomes president?

The free trade ageement is good economics. My guess is that it is good politics, too.

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Appendix.
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The Auto Sector

Paul Wonnacott

Two major objectives of the Canada–United States Free Trade Agreement (FTA) are to make economic relations between the United States and Canada:

- more open, with fewer barriers; and
- more stable, predictable, and secure.

The Automotive Products Trade Agreement of 1965 between the United States of America and the Government of Canada (the Auto Pact) provided duty-free passage of most automotive products between the two nations. For auto products, therefore, relatively little needed to be done on the first point. The most important new step in the free trade agreement is the phased elimination of remaining auto duties over the next ten years, including duties on replacement parts. In addition, Canada is to end its embargo on used cars within five years.

Because automotive trade is already so open, the second objective is by far the more important: a more secure and predictable trading relationship. This is a particularly significant issue since changes in the auto industry during the 1980s have raised questions regarding the stability of the pact. The major assumption behind the pact—that the US auto industry would continue its world preeminence—is clearly no longer the case. The rise of overseas challengers, and the responses of the two North American nations, have added to strains on the existing relationship, especially in three specific areas.

The first is the long-lasting disagreement over Canadian safeguards that accompanied the Auto Pact. In order to qualify for the right to import automotive products duty free under the pact, Canadian auto firms have to

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Paul Wonnacott is Professor of Economics at the University of Maryland.

meet production targets. In simple terms, they have to produce approximately as many cars in Canada as they sell in Canada and achieve a Canadian value added in excess of 60 percent of the value of the cars sold in Canada. These safeguards meant that Canada maintained a degree of protection under the Auto Pact. Second, Canadian moves to extend the safeguards to overseas automobile producers selling in Canada have heightened US concerns in that area. Finally, competition for overseas plants has intensified, including incentives provided in both countries aimed at attracting new plants, Canadian duty-remissions programs, and US foreign trade zones.

The FTA reduces or eliminates each of these three sources of strain. Although the Canadian safeguards remain, their coverage has been limited. Canada has agreed not to extend pact status to any new members, in contrast to the previous policy of moving toward a requirement that all significant sellers of automobiles in Canada become members.[1] Canada has agreed to eliminate export-based duty-remission programs at the beginning of 1989 and production-based duty remissions by the end of 1995. Finally, disagreements over US foreign trade zones are dealt with as part of the general drawback issue.

Automotive products constitute about one-third of total US–Canadian trade, with automotive exports to the United States accounting for 7 percent of Canadian GNP. Thus, the defusing of conflicts in this area is very important. Indeed, one might look at the recent negotiations as involving two sets of topics—one applying to economic relations between the two nations in general and one intended to deal with the growing threat of a conflict in the automotive sector.

The major purpose of this paper will be to look in detail at three major sources of conflict and the ways in which they were dealt with in the free trade agreement:

☐ the Canadian export-based duty-remission program

☐ the Canadian move toward requiring overseas firms to participate in the Auto Pact, under which they would receive duty-free treatment as a reward for meeting the production levels specified in the safeguards

☐ the Canadian safeguards themselves.

Finally, I will look at reasons why the parts producers on both sides of the border are less satisfied with the outcome than are auto manufacturers.

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[1] "Membership" is used loosely to mean qualification as eligible manufacturers under provisions similar to those in the Auto Pact.

Export-Based Duty Remissions

Under the duty-remission program, Japanese and other overseas producers operating in Canada have an incentive to export from Canada; they are rewarded in the form of a rebate or waiver of duties on their imports into Canada. For example, a Japanese firm can get back the duty paid on imports of cars from Japan by exporting automotive parts to the United States or elsewhere. This program creates three problems.

First, it represents a rather clear subsidy to exports. For example, a Japanese firm may receive a reward of over $9 in duties remitted for every $100 in parts exported;[2] the $9 is in effect a subsidy to the export and thus creates problems both under US law and under the GATT Subsidies Code. In this regard, it is important to recognize the distinction between a duty remission and a duty drawback. A duty drawback, which is legal under GATT, involves the refund of a duty paid on a product when that same product is reexported.[3] The Canadian duty remissions provide a rebate when a quite different item is exported; the exported item might have been produced 100 percent in Canada. In recent years, some allegations of subsidy have raised complex questions with unclear answers. It is quite understandable, for example, that Canadians feel that the US government unilaterally and arbitrarily broadened the definition of subsidies in the softwood lumber case. But there is little doubt that export-based duty remissions constitute an export subsidy.

Second, the duty-remission program has raised the old question, associated with the Canadian refusal to phase out the safeguards, as to whether Canada is acting in good faith. One of the concessions that the United States got out of the Auto Pact of 1965 was the de facto termination of the old duty-remission program of 1962–63. Indeed, the problems associated with that program had been the precipitating cause of the negotiations that led to the Auto Pact. A US radiator manufacturer had sued to force the US Treasury to impose a countervailing duty (CVD), as required by US law. Most observers thought the manufacturer would win. To prevent a trade conflict, the Auto Pact was hurriedly negotiated.

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[2] The maximum subsidy is equal to the Canadian tariff of 9.2 percent, but it may be less. Details are provided in my study, *The United States and Canada: The Quest for Free Trade*, POLICY ANALYSES IN INTERNATIONAL ECONOMICS 16 (Washington: Institute for International Economics, 1987), 79–82. The text of a remission agreement is given in Annex 4A, 109–13.

[3] To be precise, there may be some departure from the "same" product rule. For example, if a manufacturer imports inputs—bolts say—it may put those bolts in the same bin with domestically produced bolts and still get a drawback of the duty on bolt imports when the bolt-containing product is exported. The manufacturer does not have to prove that the actual bolts contained in the exports were precisely the ones imported, although drawbacks are limited to the duties paid on the number of bolts actually imported. This modification is designed to avoid ridiculously complex control and accounting problems.

Although drawbacks generally do not distort trade, they do so within a free trade agreement for reasons explained in Wonnacott, *The United States and Canada*, 136–38. Accordingly, duty drawbacks are not permitted for trade within the European Free Trade Association, and they will end for US–Canadian trade as part of the recent free trade agreement.

The recent history of duty remissions has not been reassuring to the United States. When Canada introduced a duty-remission program for Volkswagen in 1978, the United States objected vigorously. Canada seemed to understand these objections; when duty-remission programs were offered to Japanese firms in 1980, remissions were to be granted only in reward for exports to countries other than the United States. But in 1984 the US exclusion was dropped.

Finally, the current duty-remission program is more objectionable to the United States than was the old program of 1962–63. The old program was associated with two-way trade between Canada and the United States; an export subsidy was provided when firms earned the remission of duties paid on Canadian imports from the United States. Under the current remissions, Japanese firms operating in Canada can use exports to the United States (which are duty free under the Auto Pact) as a way of earning the remission of duties on imports from Japan. In other words, the current duty-remission program tends to suck in more imports from Japan and push subsidized exports to the United States.

Thus far, export-based duty remissions have not been very large; they have mainly benefited European firms operating in Canada. However, with the expected large rise in production by Japanese firms in Canada, the duty-remission program might have become significant in dollar terms as well as symbolically. With the elimination of the export-based duty remissions at the beginning of 1989, this source of conflict will be removed. If nothing had been done, it is likely that there would have been a US countervailing duty action against the remissions.

Overseas Producers: Should They Qualify for the Pact?

In the FTA, Canada also agreed to limit the pact's membership to present participants, thus reversing the move toward requiring all firms selling significant numbers of automobiles in Canada to meet the safeguards. A set of production-based duty-remission agreements between the Canadian government and Japanese auto firms was apparently intended as a transitional step toward a full meeting of the safeguards, with its related duty-free privileges.

Participation in the pact by overseas firms raises some of the same issues as the export-based duty-remission program, although in a more complicated way. To highlight the similarity: if a Japanese auto firm were to achieve pact membership by meeting Canadian production targets, then it would not have to pay duties on its imports from Japan. But, of course, to meet the production targets, it would be encouraged to export from Canada. The most obvious place to send exports would be to the duty-free US market. Again, as in the case of the export-based duty remissions, Canada would be using the carrot of duty-free imports from Japan as a way of pushing exports into the duty-free US market.

The economic and political reasons for Canada wanting to keep the pact open to non-American participants are relatively straightforward. Most obviously, additional overseas trade can provide diversification and a balance to the overwhelming US presence. But the reasons why the United States should object to an arrangement that sucks imports from Japan and pushes exports out to the United States are also easy to understand. From the US side, an obvious point arises: if Canadians and Japanese want an arrangement for duty-free imports into Canada to be balanced with exports from Canada, then maybe Japan, not the United States, should take the Canadian exports. Or, to put it another way, if Canada and Japan want to arrange an Auto Pact of their own, with duty-free exports in *both* directions, then that would be one thing. But it is unreasonable for Japan to freeload on the US–Canadian pact, exporting duty-free to Canada and expecting the United States to absorb the duty-free exports of Canadian-based Japanese firms, while Japan at the same time maintains tariff and other barriers to a flow of auto products from Canada back to Japan.

From the US side, one way out of the problem would have been to request that Canada bilateralize the Auto Pact. Under the pact, the United States provides preferential duty-free entry to Canadian products; it would not be unreasonable to expect Canada in return to provide preferential duty-free entry only to US products. But such a bilateralization would create problems for US auto firms operating in Canada. Although the overwhelming majority of their imports into Canada come from the United States, these firms also benefit from duty-free imports from overseas. They are now importing about C$3 billion yearly from such non-US sources. With the Canadian tariff on autos and parts at 9.2 percent, this means that they save about C$300 million annually from the multilateral provisions on the Canadian side of the Auto Pact. Last summer, when the US government was considering whether to request that Canada bilateralize the pact, the US Motor Vehicle Manufacturers Association reacted strongly; they were "extremely alarmed."[4]

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[4] Letter of 22 June 1987 to Ambassador Peter Murphy from Thomas Hanna, President of the MVMA.

The outcome of the negotiations was reassuring to present participants in the Auto Pact: they will continue to enjoy duty-free imports into Canada from any country. But the door has been shut to new participants. And the production-based duty remissions, which represent a half-way station to pact membership, will be terminated by 1 January 1996.

In combination with the end of the export-based duty remissions, these steps mean that the United States will no longer face the prospect of Canadian-based Japanese firms receiving an incentive, in the form of duty remissions or duty waivers, as a reward for exporting to the United States. Of course, if they meet the 50 percent North American content rule, the firms will still have duty-free access to the US market; they simply will not receive special incentives for exporting.

This does not mean that we are completely out of the woods. The production-based remissions may still be a source of trouble, as they will remain in force until the end of 1995. One difficulty is that the US Congress is being asked to acquiesce in the continuation of these remissions for the next eight years without knowing the details; US government requests for copies of the remission agreements have been rebuffed.

The Canadian Safeguards

With the phasing out of automotive tariffs between Canada and the United States, one of the incentives for auto firms to meet the safeguards will be eliminated. They will no longer face the possibility of huge Canadian duty payments on their imports from the United States if they fail to comply. Consequently, the free trade agreement is sometimes interpreted on both sides of the border as the effective end to the Canadian safeguards.

However, this is not an accurate conclusion. The big three still have an incentive to comply—namely, the C$300 million saved annually on duties that would otherwise have to be paid on imports into Canada from overseas sources. Questions may be asked on both sides of the border regarding the safeguards. On the Canadian side, the question arises: have the safeguards been fatally weakened? On the US side, the question is the opposite: did the US negotiators make a mistake in tacitly accepting the continuation of the safeguards and not insisting on their elimination?

First, consider the Canadian question. It is true that an extremely strong incentive to comply with the safeguards was eliminated—namely, the threat of huge duty payments on imports from the United States. But the question may at least be asked whether this threat could be carried out in practice. Like an atomic weapon, it may be too powerful and dangerous to use. Before Canada presented auto firms with huge duty bills on imports from the United States, serious thought presumably would have to be given to

the possibility of US retaliation. The more modest weapon—duties on imports from overseas—is more usable, both because of its size and because it does not apply to exports from the United States. Note Japan would be much less likely to retaliate against the collection of such duties because Japan has no duty-free agreement with Canada and because Japanese manufacturers operating in Canada will already be paying duties. A C$300 million incentive should be sufficient to ensure compliance in the foreseeable future. This is particularly true since Chrysler, which previously was in the weakest position to comply, now has much more elbowroom with the recent acquisition of American Motors and its up-to-date Canadian facilities.

This leads to the US question: did not the United States make a mistake in allowing the safeguards to persist into a general free trade regime? The problem, from the American side, is that there is no clear national interest; the interests of the big three are quite different from the interests of parts producers. The safeguards are inextricably tied up with duty-free imports from third countries into Canada by the big three. Without the safeguards, the pact would have been bilateralized, and such duty-free imports would have ended at a cost of C$300 million annually to the big three. On the other hand, US parts producers wanted the pact bilateralized, and the safeguards eliminated. The safeguards mean that US (and Canadian) parts producers face duty-free competition from overseas firms in getting contracts to supply the big three in Canada; they also prevent US parts producers from competing freely with Canadian producers in the Canadian parts market. Julian Morris, president of the Automotive Parts and Accessories Association, has criticized the Canada–United States Free Trade Agreement as "unfair" because it "fails to eliminate Canadian protection of its auto/auto parts sectors. It would subject one-third of bilateral trade to a pro-Canadian managed, not free, trade regime."[5]

Parts Manufacturers: The Rule of Origin

Residual duty-free competition from overseas parts producers was only one reason why parts manufacturers on both sides of the border are less satisfied with the outcome than are assemblers of automobiles. They were only partly successful in pushing for a stricter "rule of origin" for duty-free Canadian–US automotive trade. The method of calculating the 50 percent required North American content was changed; this had the effect of raising the requirement. But the parts producers did not get the increase to 60 percent or more that they wanted. The Automotive Parts Manufacturers' Association of Canada (APMAC) has recently declared that the automotive elements of the FTA are unacceptable if the content requirement is not raised to 60 percent.[6]

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[5] Press release, 8 October 1987.

The content requirement, a standard provision in a free trade agreement, is quite different from the Canadian value-added requirement of the safeguards, which protects the Canadian parts industry from competition from all nations including the United States. In contrast, the North American content requirement protects both US and Canadian parts producers from outside competition. Therefore, parts producers on both sides of the border have a common interest in a high North American content requirement (whereas US parts producers are opposed to the Canadian safeguards). On the other hand, the auto assemblers with limited North American operations (that is, the subsidiaries of overseas firms) might have difficulty meeting a high requirement, and therefore it is contrary to their interest. Thus, the main difference of opinion regarding the North American content requirement was within each country rather than between the two countries. This is so even if we confine our attention to the interests of producers and ignore consumers.

Nonetheless, there was some difference in emphasis between the two countries. The US government was somewhat more favorably disposed to a higher content requirement than was the Canadian government (although the principal differences had to do with timing and coverage rather than the percentage). The obvious explanation for Canada's relative lack of enthusiasm for a high content requirement is that it would be more likely to act as a barrier to Canadian exports and imports since overseas firms based in Canada might find it somewhat more difficult to reach than those firms based in the United States.

Conclusion

The automotive clauses in the FTA were about as good as could be expected. The negotiators picked their way through a complex set of issues. In the end, they eliminated duty remissions, and they partially bilateralized the Auto Pact from the Canadian side, by limiting its privileges to present members.

I find it very difficult to imagine a substantially better outcome under the circumstances. The auto clauses of the FTA are a bit untidy, but they grew out of the same dynamic process as the Auto Pact itself: unilateral Canadian action, the threat of a US countervailing duty, and an international agreement to avoid an explosion.

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[6] APMAC, press release, 9 December 1987.

What would the consequences be if the FTA were rejected? For the auto industry, a rejection of the FTA would leave unfinished business on the table. The preexisting situation is quite unstable, particularly with the Canadian duty-remission programs. There would be two possible outcomes. Specific negotiations could be undertaken to deal with the outstanding problems. In this case, something like the auto clauses of the FTA would represent about as good an outcome as I can envisage. The other alternative would be to do nothing, but this would risk a major confrontation within the next few years over Canadian subsidies on automotive exports to the United States. We can address our auto problems now, or we can address them later, when they will have become much more intractable. Fortunately, the problems were addressed in the recent free trade negotiations.

Comments

Mustafa Mohatarem

I was very impressed with the comprehensiveness of Paul Wonnacott's paper. It covers some very complicated issues related to auto trade between the United States and Canada, issues that may not have been understood fully by the auto industry or for that matter, by the negotiators. The author has done a superb job of identifying the major sources of trade frictions in the industry and how the Canada–United States Free Trade Agreement (FTA) addresses these frictions.

Given the comprehensive nature of the paper, I am not sure how much anyone could add, but let me say something about the accomplishments of the agreement, which might be overly optimistic.

I agree that the agreement should resolve most of the outstanding auto trade-related disputes between the United States and Canada. However, two major sources of friction remain that could upset the author's optimistic assessment. The first is related to the Canadian safeguards. In my view, the Canadian safeguards are totally harmless since Canada has a huge surplus in auto trade with the United States. Thus, the safeguards are not influencing either production or investment decisions. Indeed, as an aside, one must ask why a country with a trade surplus wants such safeguards.

The problem is that while the safeguards serve no economic function, they provide a ready argument for opponents of the agreement who can claim that the safeguards protect Canadian auto production at the expense of US auto production. Since this is essentially a political argument, it is hard to refute logically.

We have been trying to refute this argument by pointing out that all the safeguards do is assure Canada that 60 percent of the value of vehicles sold in Canada by Auto Pact members will be produced in Canada. Thus, for the safeguards to be binding, Canada would have to have a substantial deficit in auto trade with the United States—the case through much of the 1960s and 1970s. As we moved into the 1980s, however, the depreciation of the Canadian dollar, changing management practices, and the changing quality of labor made Canada a much more cost-effective production location. This resulted in a large Canadian auto trade surplus with the United States.

In short, this surplus is not related to the Canadian safeguards but will no doubt be associated with them. Unfortunately, this means that as long as the safeguards remain, they will be criticized in the United States and will continue to be a source of trade friction between the two countries.

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One would think, therefore, that Canada would not object to eliminating the safeguards. However, this is not the case. As Paul Wonnacott has pointed out, Auto Pact members, including General Motors, have a large interest in maintaining the safeguards: in return for complying with them, Auto Pact members receive multilateral duty-free import privileges. By eliminating the safeguards, Canada would not be able to enforce or justify providing multilateral duty-free benefits to the Auto Pact members. Given the interest in maintaining these duty-free benefits, I suspect the safeguards will remain.

This brings me to the second source of potential friction between Canada and the United States that is not addressed adequately in the paper—the lack of common external tariffs or barriers. To an outsider, it would appear from the rhetoric, at least in the United States, that the primary concern of the negotiators was inequities in auto trade between the United States and Canada. However, this was not the case. The major Canadian producers are also the major US producers (General Motors, Ford, and Chrysler). Therefore, they had little to gain and much to lose from new barriers between the two countries.

The real difficulties arose because of attempts to protect these North American producers from producers located in Japan and the Asian newly industrializing countries (NICs). This does not come through in the paper.

As the author recognizes, when the Auto Pact was negotiated, the US auto industry was the dominant auto industry in the world. The safeguards were put in place because there was a real fear in Canada that auto production in Canada would cease in a totally free trade environment. Furthermore, the safeguards were acceptable to the United States since Canada agreed to remove its very high (approximately 30 percent) tariffs on auto imports from the United States in return for the safeguards.

Quite a few things have changed since the Auto Pact was negotiated. Most are discussed in the paper. The one major omission is the significant reduction in Canadian auto tariffs. The US tariff has also declined, but it was never very large. Given the cost differences among the major auto-producing nations, neither the US nor the Canadian tariffs are now sufficient to keep out imports from third countries.

The improved competitive position of third country auto producers, especially the Japanese, and declining external tariffs have resulted in a sharp increase in imports into both Canada and the United States. Both have responded by imposing quantity restraints on imports from Japan. Not surprisingly, the quantity restraints on imports from Japan have invited imports from other countries. (If the experience of the textiles, steel, and television industries is any guide, there will be attempts to expand those restraints to other countries.)

Let us just focus on Japan, which is going to be an ongoing problem because Japanese producers are responding to the import restraints by establishing assembly plants in both countries. This is where the external tariffs come into play. The US tariff on auto parts averages approximately 4 percent, whereas the Canadian tariff averages over 9 percent. Therefore, everything else being equal, a firm planning to assemble vehicles in North America with a high level of imported components would choose to locate in the United States rather than Canada. And the United States has other advantages. In particular, the market is much larger, and importers generally have large enough sales to justify economically sized plants. It is thus not surprising that Canada finds it necessary to offer incentives to offset the tariff disadvantage faced by third-country producers locating in Canada.

We wish the two sides had at least considered the implications of not having common external tariffs and quantitative restraints. For example, the debate over the rule of origin would not have been as acrimonious if producers in both countries had been assured that third-country producers would not be able to circumvent quantitative restraints by establishing "screwdriver" assembly plants. It would have also avoided future conflicts between the two countries.

I would not be surprised to see Canada reduce its tariffs on auto parts to the US level. This would have some interesting consequences, both negative and positive. It should, in a sense, result in the de facto elimination of the Canadian safeguards. In addition, it would reduce the benefits Auto Pact members receive from having multilateral duty-free import privileges. Both of these results should please some of the US critics of the agreement.

No doubt, such a move also would result in accusations in the United States that Canada had changed its external tariffs in order to attract foreign-owned auto assembly plants. Interestingly, the groups making the accusations are likely to be the same as those wanting an end to the Canadian safeguards and the multilateral duty-free privileges of the Auto Pact members.

In sum, I am not as optimistic as Paul Wonnacott about what the FTA will accomplish because I believe that the Canadian safeguards for Auto Pact members and the lack of common external barriers will continue to be a source of potential conflict. These concerns notwithstanding, I want to emphasize that our negotiators did an excellent job. They succeeded in removing many of the sources of trade friction involving autos. This was somewhat surprising given the entrenched interests and given the strong perception that the Auto Pact was functioning as it was intended to do; that is, the Auto Pact was contributing to the integration of the two industries and to free trade between the two countries. Indeed, a lot of consideration was given to leaving autos out of the negotiations.

The perception that the Auto Pact was working well was not too far from the truth. It has resulted in virtually free trade in autos between the United States and Canada. It has also contributed to the development of perhaps the two most integrated auto industries among any two countries. But the paper is right that tensions were growing because of the challenge from Japanese and other Asian producers. The FTA goes a long way toward reducing some of these tensions.

From our perspective, the greatest accomplishment of the FTA is that it ensures that our integrated industry will remain so. We were extremely concerned that political pressures in both countries would result in such a high rule of origin as to create two separate industries. This concern was reflected in the letters to our negotiators cited in the paper. These letters make it clear that the industry's fundamental objective was to ensure that auto trade between the two countries would remain at least as free under the FTA as it is under the Auto Pact. Now that we have reviewed the agreement, we have no doubt that it will remain as free. Therefore, we rate the agreement very highly and have every intention of supporting it strongly.

O. Victor Lonmo

The Canada–United States Free Trade Agreement (FTA) that President Reagan and Prime Minister Mulroney signed on 2 January 1988 is a bold and unique undertaking. It is all the more important in this period of confused and worrisome economic signals—the currency fluctuations that have followed the G-5 meeting of September 1985, the stock market jolt of October 1987, and the potential for draconian trade policy initiatives as governments address trade and current account deficits.

I would like to focus primarily on the FTA's automotive provisions. It is not necessary to provide background data on the importance of bilateral automotive trade; suffice it to say that automotive trade represents 37 percent of US–Canada bilateral trade. In 1986, Canadian imports of automotive products from the United States were C$29.1 billion. While there are major automotive industry problems at our doorstep, America is not Canada's problem, and Canada is not America's problem.

Let us look first at the realities facing the North American automotive industry:

- ☐ *Overcapacity*. In the world today there are an estimated 6.0 million to 7.0 million units of excess automotive capacity.

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- □ *New production.* Nontraditional motor vehicle producers will be adding up to 2.5 million units of new capacity in North America by 1992–94 as compared with 1985.
- □ *Offshore sourcing.* The number and value of third-country sourced vehicles continue to rise almost exponentially. During the month of September 1987 in Canada, complete built-up units had 40 percent of the new car registrations. The value of automotive parts imports is also rising at a rapid rate.
- □ *Internationalization of industry.* The only part of the automotive industry that is internationalized is that of production, as imports into other large, high-income markets are limited in one way or another. Take a look at the market share that non-nationals enjoy in the European Common Market or Japan compared with comparable market shares in North America. North America is the *only* open automotive market in the world.
- □ *Competitiveness.* North American industry can compete if a general rule of "fairness" is applied to all players. While I cannot speak for the United States, government-imposed costs affect pricing in Canada. Our competitors in the Pacific Rim or elsewhere do not have the same costs of government to shoulder that apply here in North America. Surely the question is not, "Are we competitive?" but rather "How are we able to be competitive?"

With that general background, let us look at the agreement and see if we have the kind of deal that some call a "win-win" situation. When the agreement is implemented, we will have the traditional "Big Three" operating under the Automotive Products Trade Agreement between the United States of America and the Government of Canada (Auto Pact) rules that have been in place since January 1965. The major difference between then and now is that in 1964–65 North American producers enjoyed approximately 96 percent of the North American market. Those days have gone, and the US Department of Commerce has estimated that 52 percent of the North American market will be supplied from offshore by 1992.

The other motor vehicle producers in North America who wish to trade their products duty free across our borders need to achieve 50 percent or more of the direct cost of processing in order to meet the new rules of origin. This is a step in the right direction—that is, for Canada and the United States to adopt a common, clear, and reasonably easy to enforce set of rules of origin. However, the 50 percent number, I suggest, is not acceptable and is one issue that the Canadian and American automotive parts industry has not and will not accept.

Some have argued that we will not support the agreement because in holding out for the 60 percent rather than the 50 percent number, we want to exclude Pacific Rim producers from the market. That is nonsense. The 60 percent number is necessary, indeed mandatory, if the North American automotive industry is to have long-term strength. At 60 percent, a producer would not only be required to assemble the vehicle to achieve duty-free entry into each of our markets, but also would have to produce (in North America) the engine, trans-axle, transmission, and/or electronics of that vehicle. Only one or possibly two of those components would be required, not all of them.

If those components are produced here in North America, it will maintain the sourcing here of the high-value, intellectual portion of the vehicle via research, design engineering, and production. Canada and the United States deserve no less; the industry should accept no less. Even if we have the 60 percent rule of origin, and I believe we must have it, the market is still wide open to imports from third countries that I have already said captured 40 percent of the new car registrations in Canada in September 1987.

The Canada–US Free Trade Agreement that our heads of state have signed will require change on our part. They have made a significant start, but I think it is unacceptable for us to give up the fight until that agreement is made as good as it should be or must be. At 60 percent, the Automotive Parts Manufacturers' Association of Canada (APMAC) will support it, at 50 percent it will not.

The APMAC would support a proposal that met the concerns of the new, nontraditional manufacturers to reach 60 percent, while at the same time creating the objective for the North American industry to reach its real potential on the basis of fairness. The proposal is that the FTA, with its imperfections, including dispute settlement, be signed and implemented as it is now written, but with one change: effective January 1999 raising the level of direct cost of processing required to meet the rule of origin from 50 percent to 60 percent.

The 60 percent level of achievement will be important to all of North America and to our material suppliers as well as our parts producers. The 60 percent level is supported, or at least not opposed, by everyone in the North American automotive industry. Labor too will accept it, even though in the United States it might choose a higher number, while in Canada it tends to oppose the concept of free trade for many nonautomotive reasons. The 60 percent level is not perfect, but it is a compromise, and any agreement of such wide-sweeping proportions as this requires that we make compromises so that at the end of the day we may all be able to agree that we truly have a win-win situation.

Finally, we should also focus upon the impact of the abolition of duty drawback both in the United States and Canada. It is an issue because the tariff rates are not identical. For automobiles, the US rate is 2.3 percent, while in Canada it is 9.2 percent. If a company were choosing a North American site, and it would achieve only 50 percent North American value added with the balance coming from offshore, there would be an advantage of 6.9 percent on the 50 percent imported portion to skew that investment to the United States and away from Canada.

Issues like duty drawback and its impact upon North American automotive trade could be addressed by a select panel, as proposed for automotive issues in the FTA. The panel, if appropriately staffed at the secretariat and panel member level, could play a meaningful role in North American automotive policy development. I believe, and this is solely one Canadian's view, that no bureaucrats associated with the agreement's development should participate either directly or indirectly on the panel or its secretariat.

SENATOR GLENN'S
QUESTIONS FOR THE RECORD
Professor Paul Wonnacott

1.

There are, I am sure, some benefits and costs to the United States from the FTA that are hard to estimate. Can you cite examples of significant benefits or costs that might not be adequately reflected in the economic assessments which you mentioned in your testimony?

2.

During negotiations on the FTA, both sides were greatly concerned with the issue of subsidies and national remedies to counteract subsidies. The FTA approaches these problems with a system of binational panels which will review national antidumping/countervailing duties determinations.

(a) Relative to our present process for dealing with Canadian subsidies, does the United States give up anything by agreeing to this new system?

(b) What do we gain?

Responses to Questions for the Record

Paul Wonnacott

July 26, 1988

I. Responses to Questions of Senator Glenn

Q1. There are, I am sure, some benefits and costs to the United States from the FTA that are hard to estimate. Can you cite examples of significant benefits or costs that might not be adequately reflected in the economic assessments which you mentioned in your testimony?

A. Existing estimates of gains and losses focus on two general issues--changes in overall economic efficiency that may result from freer trade, and changes in output and employment in specific industries.

There are other potential changes whose effects are much more difficult to quantify:

1. One of the arguments for international trade is that it increases competition in an economy. The most important "antitrust" policy of the United States since World War II has been the broad reductions in trade barriers as a result of various negotiations under the General Agreement on Tariffs and Trade. In technical terms, an opening of trade generally makes the demand curves facing producers higher and more elastic. Workers' incomes and business profits are generally higher, but unions and corporations have less market power. Standard estimates of the benefits of freer trade attempt to identify the first effect (higher incomes) but not the second (more competition).

A further opening of trade with Canada would add to competition within the U.S. economy, although this effect would undoubtedly be much less strong than the competitive effects that have resulted from more liberal trade policies in the past half century. Nevertheless, it is worth noting that the U.S. economy apparently has become more flexible, with more competition, in recent years as a result of changes in trade policy and a relaxation or elimination of some anti-competitive domestic regulations. The increase in flexibility and competition has been one of the reasons why the U.S. economy has been able to sustain a long expansion in the 1980s, bringing down unemployment without generating substantial inflation.

2. Even more difficult to quantify is the possible effect on business attitudes and culture. Because of the very large internal U.S. market, many businesses are not export oriented, and this undoubtedly has contributed to the trade deficits of the past decade.

The agreement with Canada should encourage U.S. businesses to look toward export markets. In particular, the Canadian commitment to an elimination of most trade barriers will open up export prospects for smaller and middle-sized firms. Selling to Canada may be a good way for smaller firms to get their feet wet in an export market, and may make them more willing to consider exporting to other countries too.

Again, it is tricky to quantify this effect. The large U.S. trade deficits of recent years have been due primarily to macroeconomic and exchange rate maladjustments. The U.S. bilateral trade balance with Canada is unlikely to improve much, if at all, as a result of the FTA. However, an increase in export orientation can play a positive roll in stimulating exports to third countries, and encourage U.S. businesses to take advantage of the more realistic exchange rates that have recently been achieved.

Q2. During negotiations on the FTA, both sides were greatly concerned with the issue of subsidies and national remedies to counteract subsidies. The FTA approaches these problems with a system of binational panels which will review national antidumping/countervailing duty determinations.

Relative to our present process for dealing with Canadian subsidies, does the United States give up anything by agreeing to this new system? What do we gain?

A. Attitudes on the two sides of the border differ more sharply on the antidumping/countervailing duty (CVD) question than anywhere else--with the possible exception of cultural issues. That is perhaps because fairness is the central issue in CVD laws, and reasonable people can disagree profoundly over what is fair.

The Canadian government historically has been more interventionist than the U.S. government. For example, it took a direct role in the development of a transcontinental railroad; it developed a national airline; and it has developed a comprehensive health program. Businesses are more likely to look to the government for help, in the form of regional development grants or other aid.

In the United States, such grants are often considered unfair competition; the United States has provisions for CVD actions in some circumstances.

Canadians are concerned that U.S. CVD actions can increase the risk of doing business with the United States, and can have a protective effect. In going into the negotiations, Canada wanted a broad exemption from U.S. CVD actions.

On this topic, the FTA is incomplete. There was no comprehensive agreement on limits to Canadian subsidies or on U.S. countervailing duties. The two sides committed themselves to further negotiations, aimed at a comprehensive agreement in the future.

From the Canadian viewpoint, however, it was important to get some assurances on the CVD issue. Canada has had two problems: (1) they don't like the U.S. CVD laws; and (2) they are concerned that political pressures in the United States will lead to an unpredictable extension of the laws.

On point (1), the United States made no commitment to change its laws; U.S. CVD laws will still be applicable to imports from Canada. A principal purpose of the binational panels is to give Canada assurances on point (2). One of the functions of the panels will be to ensure that U.S. law is strictly enforced, without political end runs and political pressures on the Commerce Department and ITC.

In other words, a main effect will be to ensure that quasi-judicial procedings are in fact quasi-judicial, and have a degree of insulation from political pressures. It is not clear how much difference this will make in practice. That is because it is not clear whether political pressures have in fact influenced CVD decisions in the past, such as the lumber case. Canadians suspect that politics may have played a role in the 1986 finding of an actionable subsidy, when an earlier investigation had resulted in a negative finding. The issues in this case are sufficiently murky that it is difficult for an outsider to have an informed opinion. The President's letter to Senator Packwood suggests that political pressures may have been a factor. If so, then the panels can have practical effects on point (2).

On the subsidies/CVD issue, the United States did not give up much, if anything. Procedures to ensure that U.S. law are, in fact, faithfully followed would not seem to be a major concession. Both sides should gain from the lowering of heat on this emotional subject, particularly if future negotiations lead to a more comprehensive agreement. On their side, Canadians agreed to give up one of their most objectionable subsidies, namely, duty waivers. (Some waivers are to end when the agreement comes in force; others are to be terminated in the 1990s.)

Senator Levin's Written Questions
Governmental Affairs Committee hearing on
U.S. - Canada Free Trade Agreement
May 9, 1988

PANEL II: PAUL WONNACOTT, UNIVERSITY OF MARYLAND

(1)

You wrote a paper for the Institute of International Economics on the automotive provisions of the FTA. In your conclusion, you state the you "find it difficult to imagine a substantially better outcome" in the automotive area than the one achieved under the FTA.

Would a substantially better outcome have been possyble if the U.S. negotiators had made changes in the Auto Pact a *quid pro quo* for concessions in some other area that was important to Canada

II. Responses to Question of Senator Levin

Q. You wrote a paper for the Institute for International Economics on the automotive provisions of the FTA [in Jeffrey J. Schott and Murray G. Smith, eds., The Canada-United States Free Trade Agreement: The Global Impact (Institute for International Economics, 1988), pp. 101-109]. In your conclusion, you state that you "find it difficult to imagine a substantially better outcome" in the automotive area than the one achieved under the FTA.

Would a substantially better outcome have been possible if the U.S. negotiators had made changes in the Auto Pact a *quid pro quo* for concessions in some other area that was important to Canada?

A. The auto provisions were put in at the initiative of the United States. There was strong pressure in Canada, particularly from the Province of Ontario and the Canadian Auto Workers Union, to keep the auto sector out of the negotiations.

I am not aware that the United States gave up anything to get the auto provisions. It does not seem to me we should have, because the main purpose of the auto provisions is to defuse a potential explosion over Canadian auto policy.

What the United States got in the auto sector was the following:

1. By Jan. 1, 1989, an end to Canadian duty remissions based on exports to the United States.

2. An end to Canadian production-based duty remissions by Jan. 1, 1996.

3. A Canadian agreement not to permit new firms (mainly Japanese) to become members of the Auto Pact, and thus gain duty remissions as a reward for Canadian production and/or exports to the United States.

4. An end to the Canadian embargo on used cars within 5 years.

What Canada got in the auto sector was the following:

1. At least tacit U.S. acceptance of the safeguards, as they apply to present participants (almost all of which are U.S.-owned firms).

Both sides gained, in that they negotiated a way out of a potentially messy situation, with possible actions and counter-actions, if Canada had refused to budge on points 1 through 3 above.

When I conclude that this was the best agreement I can imagine, this may raise a question in the United States: would not it have been better to move to a simple elimination of the Auto Pact, together with its safeguards?

This was initially considered as a negotiating position by the U.S. government. It led to a strong negative reaction on the part of U.S. firms. A termination of the Auto Pact, with its safeguards, would have subjected them to about $200 million annually in duties on their imports into Canada from overseas sources. The Canadian safeguards have been overfullfilled by a substantial margin since 1980, and they are unlikely to have much effect in the next few years. (It is hard to forecast over a longer period.) In short, it is a judgment call as to whether the agreement achieved is better or worse for the United States than an agreement to terminate the Auto Pact--even if such a termination had been negotiable. My view is that it would not have been, and that a U.S. insistence on a termination would have made the overall agreement unacceptable to Canada.

It now looks as though there will be a fall election in Canada which will act as a referendum on the FTA. Should the government be defeated, the FTA will not be ratified in Canada. In that event, we will be back to square 1 with our bilateral auto problems. It will be very important to try to negotiate over the outstanding problems. Again, the auto provisions of the FTA are the best outcome that I can foresee. These provisions could stand alone--that is, they could be adopted even if the rest of the FTA is rejected.

Testimony of the Honorable Ashley C. Brown,
Commissioner, Public Utilities Commission of Ohio

Good morning. I very much appreciate the opportunity to discuss with you some of the implications of the United States - Canadian Free Trade Agreement. My name is Ashley C. Brown. Since April, 1983 I have served as a Commissioner on the Public Utilities Commission of Ohio. I am a member of the Electricity Committee of the National Association of Regulatory Utility Commissioners for which I chair the Subcommittee on Strategic Issues. I have also served on the National Governor's Association Task Force on Electric Transmission and on the Advisory Board to the Consumer Energy Council of America on their report on the proposed rulemaking on electric bidding at the Federal Energy Regulatory Commission. While I do not testify today on behalf of any organization, I believe these affiliations are relevant to the experience and perspective I bring to the testimony I am offering today.

I would note at the outset that my purpose in testifying today is neither to specifically support nor oppose the General Trade Agreement in its entirety. Such a recommendation could only result from a comprehensive analysis of the document as a whole which I have not performed. I would, however, like to share some observations about the Agreement as it relates to trade in electricity and gas between the two countries.

At first glance, the importing of Canadian electricity to the United States appears to be an attractive supply option for some regions of the United States, particularly the Northeast, part of the upper Mid-West, and parts of the Far West. The appeal stems from low prices relative to the cost of building new generating facilities, as well as the perceived beneficial local environmental impact of not having power plants close at hand. The dramatic increase of Canadian imports in recent years attests to that attractiveness. The proposed Trade Agreement enhances that short-term appeal. It eliminates the Canadian National Energy Board's requirement that a Canadian exporter price its power above the United States purchasers' avoided costs (although a Canadian producer may, and is likely to, continue doing so). It also, on paper at least, reduces Canada's ability to curtail exports during a period of constraint or crisis in energy supply to a level commensurate with domestic curtailment. Moreover, at present, Canadian exports are attractively priced largely because of the subsidization inherent in favorable tax treatment accorded Canadian power producers, highly leveraged capital structures, less than stringent environmental regulation, government guaranteed financing, and, in some cases, outright appropriation of public dollars. While the Agreement theoretically envisions the eventual elimination of subsidies, it only mandates a five year study of the subject. Thus, some of the subsidies may be locked in for a period far in excess of the five years contemplated for the study.

As with electricity, the Free Trade Agreement, at first blush, seems appealing to U.S. gas consumers. First, by operation of the basic laws of supply and demand, non-discriminatory access to the vast Canadian gas reserve should have a beneficial effect on gas prices in the U.S. That impact is made even more attractive by the elimination of Canadian export fees which have added $6 to $10 million dollars per year to the price American consumers have paid. Similarly, the elimination of Canada's ability to discriminate against its U.S. market in terms of curtailment adds to the surface allure of the Agreement.

Considering the strong appeal of buying Canadian electricity and gas, why is any further analysis required? Given the centrality of energy to our security and well being, there are four broad areas where I believe further inquiry is necessary. They are:

1. Security and reliability;
2. Impact on domestic energy infrastructure and long-term price implications;
3. External costs; and
4. Redress of grievances.

Before addressing each of the areas of inquiry, it is crucial to note some basic distinctions between the gas and electric markets. First, gas is a commodity and electricity is an industrial product. That distinction means that the institutional characteristics of the industries are different. Fixed costs are a higher percentage of the cost of doing business in the electric industry than in the gas industry. Infrastructure, while critical to both businesses is more critical in electricity. Environmental costs and problems are significantly higher for electricity than for gas. The physics of moving electricity is more complex than in the transportation of gas, thus necessitating a higher degree of institutional coordination and mutual reliance for electric utilities than for gas companies. Finally, both the market structure and public policy considerations for electricity and gas, while similiar in some regards, are not at all identical. As a result of these differences, the analysis of each of the areas identified yield quite different conclusions for gas and electricity.

1. Security and Reliability

The security and reliability concerns on the electric side derive inevitably from the pivotal role that electricity plays in our national security and prosperity. While there are no foreign powers who have proven to be more reliable allies and trading partners to the United States than Canada, the reliance on Canadian electric power is not without risk. Security arrangements for critical facilities are beyond our control north of the border. Domestic political considerations in Canada, whether stemming from interprovincial rivalries, supply constraints, or other sources may well disrupt the power flow across the border. While the terms of the Agreement would appear to limit that possibility, it is difficult to imagine the Canadian government, or, for that matter any other government, curtailing electricity to domestic consumers in order to meet a foreign obligation, particularly where the enforcement mechanism is as weak as it is in the Trade Agreement. Significantly, the curtailment itself may have to be done by provincial and not federal authorities, many of whom oppose the Agreement and are not at all anxious to implement it. Finally, apart from political uncertainty, one of Canada's leading exporters, Hydro-Quebec, has been notoriously unreliable in serving its native load customers, is not fully synchronous with the rest of North America, and has to deliver power to the United States over transmission lines which pass through hundreds of miles of rough terrain in a hostile climate. That lack of reliability poses problems not only for purchasers of power, but also for much of the Eastern portion of the United States whose transmission system must be prepared on an instant's notice to provide back-up power in the event that Hydro-Quebec goes down.

While some of the security and reliability concerns can be mitigated, they can never be eliminated entirely and must always be kept in mind.

From a gas perspective, the Free Trade Agreement provides greater assurances than presently exist for obtaining secure and reliable Canadian gas supplies. In the past, the United States/Canadian gas trade has operated under restrictive policies, including high Canadian export fees, which inhibited gas trade and development and caused shortages. More recently, the United States and Canada have adopted more liberal trading policies, including Canadian gas export regulations which have allowed U.S. consumers greater access to long-term Canadian gas supplies. The non-discriminatory access and pricing provisions of the Free Trade Agreement provide further assurances that both countries will operate under fair trading principles.

If curtailment of Canadian gas imports were to occur, the United States has far more opportunity to insulate itself from risk than in the case of electricity. Unlike electric power, gas supplies can be stored. In addition, unlike electric power lines, gas lines are not generally disrupted by weather conditions, and there are no indications that Canadian gas transmission lines are any less reliable than those in the United States. It is also worth noting that we are better able to cope with gas curtailment than with electric because of fuel switching capability, greater ability to foresee shortages, clearer priorities of use, and a variety of other reasons.

Most U.S. gas supplies are transmitted over very long distances as is the case with electricity, however, in terms of disruption of the supply lines, there is no appreciably greater risk to the security and reliability of Canadian imports than there is to domestic production. Moreover, the existence of multiple lines of transport and commodity sources in the United States provides a level of security and reliability that can only be enhanced by access to Canadian reserves. Clearly, reliance on Canadian gas lines is markedly different from reliance on a single electric transmission line which crosses hundreds of miles of sub-Artic terrain, and which may lack the security of access to alternative power lines and centers of production. In short, for gas, the Free Trade Agreement would appear to enhance security and reliability, while for electricity, the opposite may well be true.

2. Impact on Domestic Energy Infrastructure and Long Term Price Implications.

The second area of concern is the long-term effect that bulk Canadian purchases will have on the domestic energy infrastructure in the United States, and the long-term price implications that flow therefrom. While much of the imported Canadian power has displaced electricity generated by plants burning foreign oil, some has also displaced domestic coal and oil fired capacity. More importantly, the Canadians have seized a market opportunity from the hard pressed coal and oil industries in the United States. As those opportunities dwindle, so too does the infrastructure for delivering domestic resources, coal in particular. Not only is investment in that infrastructure discouraged by the lack of market opportunity, but many existing facilities are more likely to fall into a state of disrepair and disuse that will ultimately reduce access to our own resources. Indeed, reduced reliance on domestic resources will likely produce a secondary effect of retarding the emergence of new technologies, such as clean coal, which hold the promise of burning domestic resources more cleanly and economically. By failing to expand market opportunities in the Northeast for domestic resources, we are missing a great opportunity to achieve a greater geographic match between the cost and benefits of reducing sulfur dioxide and nitrogen oxide emissions from coal burning power plants. That match would almost certainly increase the likelihood that the policy impasse on acid rain could be resolved. Thus, large scale reliance on Canadian power has a long-term adverse impact on U.S. domestic coal, and perhaps, oil production, and may cause us to squander an opportunity to resolve a regionally divisive policy dispute on the environment. I do not intend to suggest that, absent Canadian imports, domestic coal or oil would necessarily be the fuel sources of choice. Certainly, in terms of plants located near load centers, a number of states in both the Northeast and West have adopted public policy preferences not to construct new plants. In regard to coal, the real market opportunity is for burning near the mine and shipping elsewhere by wire. Unfortunately, the transmission capacity that would enable large scale interregional transfers of power is not present. There are a number of reasons for the absence of sufficient transmission capacity to accommodate the potential bulk power market. While I do not intend to go into all of them today, it is relevant to note that Canadian imports play a two-fold role in reducing the availability of transmission to accommodate bulk power transfers between the Mid-West and Northeast. The first is that by pricing at the avoided cost of alternative power produced in the United States, rather than based on their own cost of production, particularly in New England, the Canadians are able to price at any level required to keep competition out. While the Trade Agreement eliminates the National Energy Board requirement that power exports be priced that way, nothing in the document precludes a Canadian producer from continuing to so price. Thus, Canadian pricing practice discourages the construction of the additional transmission capacity required to allow domestic power producers to compete in Northeastern markets.

The second significant role that the Canadians play in reducing transmission availability for domestic bulk power markets relates to the inadvertent power flows resulting from Ontario-Hydro sales to New York. While the contractual path for the power transfers is largely across the Niagara frontier, the electrons themselves follow the course of least impedance, rather than adhering to contractual niceties. As a result, on an average annual basis, 43% of Onatario's power sales to New York flow into Michigan and then across Ohio and Pennsylvania to its intended market. Not only does that significant flow take up a great deal of the available capacity on a system already badly constrained in Pennsylvania, but it does so, with one exception, without compensating the companies whose transmission lines carry the power. Ironically, many of the companies carrying Ontario's power to market in the United States free of charge are potential competitors to Ontario-Hydro in Northeast markets. Additionally, Mid-Atlantic and Mid-Western utilities also have to provide back-up service to Hydro-Quebec in their sales to the Northeast part of the United States. Simply stated, many domestic power companies and their ratepayers are, in effect, both subsidizing Canadian competitors by providing transmission services gratis and, by transporting Canadian power, physically blocking their own access to the Northeast.

While Canadian pricing and power transfers pose significant difficulties for the Eastern transmission grid, more problematic is the failure of United States policy on transmission. After 50 years of jurisdiction over the bulk power and transmission services markets, federal regulators have yet to develop any coherent policy on pricing those transactions. Indeed, it is the absence of any consistent pricing mechanism for inadvertent power flows that has created the absurd situation where domestic power producers have to, in effect, subsidize their Canadian competitors. It should be noted that we not only are without any pricing policy, but we have no mechanism to assure transmission access for power transfers and no means of resolving interstate disputes over the siting of transmission facilities. The Free Trade Agreement can only exacerbate these problems. By not requiring subisidies to be removed from Canadian imports until the completion of a five year study, and perhaps not even then, the Agreement gives Canada the ability to lock up the bulk power markets before domestic producers can even gain access to them. Ironically, the Canadians have succeeded in inserting language into the Agreement which is designed to force the Bonneville Power Authority to reexamine its transmission access policy which has had the effect of denying British Columbia Hydro access to the California market. Thus, the Agreement seems to provide some redress to transmission bottlenecks inhibiting Canadian producers, while arguably reinforcing Northeastern bottlenecks that provide Canadian producers inordinate market power in New England. Those results are clearly contrary to public policy inasmuch as they have ominious long-term price implications and are inherently anticompetitive in nature. While free trade may be a laudable objective, attaining it by freezing domestic producers out of the marketplace while assuring Canadian access is obviously an unacceptable result. Accordingly, Congress might want to place limits on agreements for new Canadian imports for a period of time in order for it and the Federal Energy Regulatory Commission to develop policies which will open the marketplace in order to facilitate greater competition between Canadian and U.S. power suppliers.

In contrast to the electricity market, the Free Trade Agreement offers more positive implications for the U.S. natural gas market. Providing additional, reliable supplies of natural gas from Canada will create a more stable gas purchasing environment and increase consumer confidence in the availability of natural gas. Expansion of gas supplies for U.S. markets should lower the cost of natural gas to both individual and business consumers. An expanded market will ultimately inure to the benefit of both the U.S. and Canadian gas industries.

The Department of Energy has cited the displacement of imported oil with natural gas as an important policy goal, especially in the Northeast United States. This policy is beneficial both in terms of security, in that it decreases reliance on supplies from the Middle East, and in terms of providing enhanced competition which will benefit both the gas industry and consumers of natural gas. It is critical, of course, that we develop the transmission infrastructure required to achieve these potential benefits. Unlike in electricity, where increased Canadian imports could retard the development of domestic bulk power markets and infrastructure to support it, in gas, it seems likely to expand such developments. For one thing, the institutional mechanisms are in place to do so. The FERC has jurisdiction to site gas lines (which it does not in electricity). It needs to exercise that authority in an expeditious and equitable manner in order to achieve the desired results. Those institutional mechanisms are in place because, unlike in electricity, we have always viewed natural gas as a bulk national market rather than, as in the case of electricity, a series of insular markets. The result is that there should be fewer infrastructure concerns arising from increased use of Canadian gas than there are in the electric industry.

In the gas industry, certain market protections exist which have created a more level playing field than exists in the electric industry. Under FERC's "as billed" rule which prohibits accounting of gas costs solely under the demand component, treatment is identical for both Canadian and U.S. producers. The Free Trade Agreement doesn't address this issue, but would provide an additional level of protection for the U.S. industry, in that it assures non-discriminatory treatment of Canadian and domestic producers.

I would inject one note of caution. Expansion of gas supplies and increased gas marketing ought not be used as an excuse for either relying upon gas or ignoring conservation. Gas is still a finite resource. Its price is still volatile. As a result, inefficient use is not only wasteful, it can have devastating long term consequences. Diversity of fuel supply in energy use, and conservation are both extremely important public policy objectives which cannot be over-emphasized.

3. External Costs

The external costs of Canadian electricity imports are considerable. I have already discussed some of the externalities, but there are two additional ones which merit careful consideration. The first is the obvious, loss of domestic jobs in construction, mining, and related activities. While Canadian imports may bring certain advantages in the form of lower prices in the short-term, the cost must be measured in terms of those alternatives that were forgone. Thus for example, lost market opportunities for domestic coal, oil, or uranium means lost jobs, the export of capital that could otherwise be invested domestically, and the adverse infrastructure effects set forth earlier. Those costs, while external to any individual transaction, and perhaps irrelevant to the parties involved, are nonetheless of great importance to public policy makers who set the framework within which the cross border electric sales occur. Those costs are certainly relevant to Congressional consideration of the Free Trade Agreement.

The second externality which must be weighed is environmental. Advocates of the Agreement speak of a North American electricity market. It is, therefore, entirely appropriate for Congress to declare North America a single environment. To do so is both ecologically desirable and in furtherance of fairness in free trade. Unfortunately, unless the subsidy study focuses on the deficiencies in Canadian environmental regulation vis-a-vis United States regulation, a disparity which provides Canadian power producers significant cost advantages over U.S. competitors, the Agreement will remove the only vehicle for the U.S. to require environmental equivalency as a precondition for access to U.S. markets, the Presidential Permit requirement. The environmental consequences are particularly critical when it is considered that much of the Canadian power being exported is produced in the fragile ecological system of the subarctic. Not only does Canadian law not require an environmental impact statement, but even public hearings assessing the environmental impact of building large capacity for export are purely discretionary with political authorities. While the U.S. certainly ought not, as a matter of course, ordinarily dictate the terms of domestic environmental regulation to another sovereign state such as Canada, it is entirely appropriate to require regulatory equivalency as a precondition to free trade access to U.S. markets. To do anything less is antithetical to both fair trade and preservation of the North American ecosystem.

With regard to natural gas, expanding markets should have a positive impact on jobs associated with the industry. In a more competitive environment there will be greater business opportunities for producers, local distribution companies, investors, and for industry in general, as gas is more readily available. Indeed, unlike in the more insular electric industry, expansion of gas markets benefits all producers, since each has, in theory at least, the opportunity to serve those markets.

In terms of environmental costs, while there are ecological issues concerning gas production, transmission, and use, they do not rise to either the level of concern or scale of investment required for protection that is the case in the electric industry. Moreover, the inter-regional distribution of perceived environmental insult and cost of "cleaning up", as are present in the acid rain debate, are simply not present in gas. Indeed, the availability of more gas supplies may well be beneficial as we develop such emerging technologies as combined cycle plants and other forms of generation that would utilize natural gas. Finally, in terms of the North American eco-system, the lesser degree of Canadian environmental regulation simply does not rise to the same level of concern in gas that it does in electricity.

4. Redress of Grievances

As to electricity, concern about the dispute resolution mechanism is two fold. First, there really is no vehicle for dispute resolution in any definitive sense. Rather, the Agreement establishes a forum for laborious debate that seems to lack closure or resolution. This is particularly problematic in the electricity trade where long lead times are required to plan and build capital projects for producing and transmitting power. Secondly, should the Canadians engage in dumping, it is not at all clear who would have standing to challenge the practice under the General Agreement on Trade and Tariffs. Since, largely for the reasons I have already mentioned, we do not have a domestic bulk power marketing sector which identifiably and directly competes with such Canadian giants as Hydro-Quebec, it is not at all clear that anyone has standing to challange dumping, since such injured parties as the coal industry are not direct competitors. While one could construct any argument for standing, it is not at all clear that it would succeed, thus we could leave ourselves defenseless in the face of dumping.

With regard to gas, there is little question that U.S. producers would have standing if Canadian producers attempted dumping of supplies in the U.S. market. Moreover, while domestic producers require time to access and develop new gas supplies, those lead times are far shorter than that required by bulk providers of electricity, in no small measure because the transmission infrastructure for moving U.S. gas resources to market is largely in place, while the same is not, as I have noted, true on the electric side. Thus, the absence of a well-defined process for dispute resolution, while perhaps problematic on the gas side, is far less critical than for electricity.

Once again I very much appreciate the opportunity to appear before you today to share with you some of my perspectives about electricity and gas aspects of the Free Trade Agreement. Thank you.

SENATOR GLENN'S
QUESTIONS FOR THE RECORD

The Honorable Ashley Brown

1.

Your testimony implies Canadian electricity exports are cheap because Canadian power producers are subsidized.

(a) To what extent is Canadian electricity relatively cheap because of the natural advantage Canada has in hydro power?

(b) If Canada did not subsidize, would they still be able to produce inexpensive electricity for export?

(c) How does the size of Canadian electricity subsidies compare with any such subsidies that exist for U.S. power producers?

2.

You have testified that you have reservations about the FTA's effect on electricity trade with Canada.

(a) How much will the FTA affect the magnitude of U.S.-Canadian electricity trade?

(b) Would you have the same reservations about U.S. purchases of Canadian electricity imports if the FTA were rejected?

3.

Will the FTA make energy end-use consumers better off because of cheaper Canadian electricity or gas?

4.

(a) Will the implementation of the FTA provide our energy-intensive industries with cheaper fuel inputs?

(b) If so, will this improve their ability to compete internationally?

5.

You note a potential cost of Canadian electricity imports would be a loss of coal-related jobs in the U.S.

(a) Do you have an estimate of the magnitude of this cost?

(b) What are the employment implications after factoring in any benefits created by cheaper electric power to manufacturing industries?

6.

You imply that importation of Canadian electricity will "back out" U.S. coal. We have recieved testimony from the Vice-President of the New England Electric System stating that in New England -- the region that takes most of the electricity imported from Canada -- imported electricity actually "backs out" imported oil, not coal.

(a) If this holds generally, will the "backing out" effect improve U.S. energy security?

(b) If imported electricity does "back out" coal, is there some benefit to the U.S. from consuming cheaper Canadian electricity now in order to save our coal resources for when the U.S. oil supply dwindles in the future?

Senator Glenn's
Questions for the Record
Ashley C. Brown, Commissioner
Public Utilities Commission of Ohio

(1) (a) Hydro power does provide relative cost advantage to Canadian power producers, but that advantage, as noted in my testimony, is only one of many the Canadians enjoy. That advantage is heightened by less stringent environmental regulation in Canada than the U.S. More importantly, price ought not be the sole criterion in making power purchases, or in setting the public policy governing such transaction.

(b) Yes, but obviously not as inexpensively. Moreover, the subsidies must be viewed in the same broad context as I identified them in my testimony.

(c) The biggest subsidy is in an environmental regulatory system that is less stringent and less costly than ours. While there are tax subsidies on both sides of the border, they tend, given the structure of the Canadian power industry, to be greater north of the border. Unlike the U.S. industry, which is mostly, although certainly not uniformly, owned by private investors, the Canadian utilities are mostly crown corporations which, because of their government backing are able to obtain capital at a lower cost and on a highly leveraged basis. Moreover, in some cases, Manitoba, for example, the Canadians have actually used public dollars to lower the price of exports.

(2) (a) The FTA will have some support on the magnitude of U.S.-Canadian electricity trade, but probably only marginal. The major policy issues concerning the trade are generically inherent and not necessarily specific to the FTA.

(b) Yes.

(3) On the gas side, the answer is yes. On the electric side for the reasons given in my original testimony, it is very difficult to say whether end use consumers are better or worse off. The answer cannot be dictated by price alone. Reliability, social concerns, external costs, infrastructure, and other factors need to be weighed carefully.

(4) (a) Taken in the context of price alone, to the exclusion of other factors, the answer largely depends on geography. Canadian producers cannot, and make no pretense of being able to, meet all of the incremental demand for electricity in the U.S. The Canadian presence in the U.S. market is largely limited to the Northeast, Upper Mid-West, and the Far West. For industries in those areas, electricity might be marginally cheaper. For industries elsewhere, the electric price results are likely to be somewhat higher, or at least not as inexpensive as they might be if the costs of the electric utilities serving them could be reduced by spreading them

over a well integrated domestic bulk power market, whose development could well be retarded by increased dependence on Canadian imports.

On the gas side, the answer is also dependent on geography. Where the pipeline capacity is sufficient to allow the flow of Canadian gas, I believe the FTA could result in lower gas prices.

(b) On the gas side, the U.S. competitive posture would be improved. On the electric side, as indicated in response to (4)(a), the answer is not necessarily. It should also be noted that to the extent that Canadians earn enough profit to subsidize the price of electricity in their domestic market, it is their industry, not U.S., which will gain the competitive advantage.

(5) (a) No, although the biggest cost is in lost opportunity and diminished investment in infrastructure rather than in the loss of existing jobs. In short, it is growth foregone that constitutes the loss.

(b) The answer to this must be seen in the context of the geographic considerations I set out in response to (4)(a), as well as in the competitive considerations discussed in response to (4)(b). The key point is that a balance must be struck that reflects the reality that price cannot be considered to the exclusion of all other factors, and that the employment implications are such that some regions will be definite losers while others may devise some gains.

(6) (a) I never said that Canadian electricity will have a "back out" effect on U.S. coal. Such an effect would be marginal on coal, and I agree would be greater in regard to oil imports. The biggest cost for coal is the loss of market opportunity, not necessarily loss of existing markets. I believe that poses an energy security problem because increased reliance on Canadian imports reduces the incentive to invest in the infrastructure necessary to make domestic coal reserves readily available, diminishes bulk power competition, and poses potential reliability problems.

(b) While there may be some theoretical benefit to conserving coal, I believe it is only theoretical. By reducing the incentive for expanding and maintaining the infrastructure for the extraction and marketing of coal, we may simply be rendering it less accessible, and far more costly to access in the future.

STATEMENT OF

MARC SANTUCCI
ADVISOR TO THE GOVERNOR
ON TRADE POLICY

STATE OF MICHIGAN

ON THE

U.S.-CANADA FREE TRADE AGREEMENT

BEFORE THE
COMMITEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

MAY 9, 1988

Thank you, Mr. Chairman, for the opportunity to testify on the provisions of the U.S.-Canada Free Trade Agreement (FTA) governing trade in automotive products. Governor Blanchard sends his best wishes.

The Reagan Administration began the trade negotiations with the goal of producing a free trade agreement. Unfortunately, the result is an agreement that, at least in the automotive sector, does not live up to its name.

For 23 years automotive trade has been governed by the U.S.-Canada Automotive Agreement (Auto Pact) which, contrary to popular belief, is not a bilateral free trade agreement. Rather, it has distorted trade and investment to the benefit of Canada. Subsequent Canadian government policies -- specifically the automotive duty remission programs -- continue this distortion.

The reality of this distortion has become clear. In 1965, the year the Auto Pact was concluded, Canadian automotive production as a percentage of total U.S. and Canadian production was 7.1 percent. By 1987, Canadian production was over 15 percent.

During the long negotiations, the State of Michigan worked to focus the Administration's attention on these distortions. It was our desire to secure changes that would provide for truly free trade in the automotive sector -- and make reality conform to the popular perception.

The results in the automotive sector were deeply disappointing to the State of Michigan. Given the existing skewing of benefits to Canada, the improvements that have been made have come off a very low base.

GENERAL COMMENTS

Notwithstanding problems in the automotive sector, the State of Michigan is otherwise likely to derive some benefit from the FTA. The five-year phase-out of Canada's high tariff on institutional furniture will help an important Michigan industry. Improved access to lower cost Canadian electrical power could improve the competitiveness of Michigan's manufacturing base. The City of Detroit, located at the western end of the populous, industrial Canadian corridor running from Montreal to Windsor, is well positioned to become a major point of service activity that would accompany the projected increase in two-way trade.

While important, these benefits cannot compare to the magnitude of trade in automotive products. In 1986, Michigan and Ontario alone traded over half of the $46 billion in U.S.-Canada automotive trade. Overall, automotive trade constitutes approximately one-third of total U.S.-Canada trade.

Despite the significance of this trade, it is my view that the Reagan Administration sacrificed a critical opportunity to make significant changes in the terms of automotive trade to its imperative of "getting an agreement." The resulting provisions governing automotive trade reflect a total lack of commitment to make meaningful changes. By way of example, the U.S. allowed Canada to keep practices detrimental to U.S.-based parts suppliers for up to 10-years, even though the Administration had previously determined the practices to be GATT-illegal.

The automotive trade provisions further reflect a disturbing lack of understanding of the operation and economics of the automotive sector. The Administration declares victory by pointing to practices eliminated or modified, and yet the economic benefits of these actions will not be felt for many years and, I believe, are offset by other changes, or by an absence of change.

AUTOMOTIVE TRADE PROVISIONS

In general, the FTA made a few positive changes in the current rules governing trade in automotive products. But, unfortunately, these benefits are offset by major shortcomings in practical economic terms.

Accompanying my statement is a "side-by-side" prepared by the Michigan Department of Commerce. It compares the current rules of automotive trade with the provisions of the FTA.

Auto Pact -- The FTA prevents the Auto Pact from being applied to any major motor vehicle manufacturer other than Chrysler, Ford, and GM, and possibly by 1989, CAMI, the GM-Suzuki joint venture.

Under the Auto Pact, vehicle manufacturers in Canada meeting the Auto Pact's "safeguards" -- requirements to produce as many vehicles as are sold in Canada and to achieve a high level of Canadian value added -- are "qualified" to import motor vehicles and parts into Canada duty-free from any country, including the U.S. Vehicle manufacturers with facilities only in the U.S. are unable to export vehicles to Canada duty-free.

By limiting the Auto Pact only to named manufacturers, the FTA will open the Canadian market for vehicles produced by Japanese-owned manufacturers in the U.S. once the Canadian tariffs are phase-out. Moreover, the Auto Pact will no longer be an incentive for certain manufacturers to locate in Canada to serve both the U.S. and Canada on a duty-free basis.

Despite this change, U.S. negotiators were unable to modify in any way the "safeguards" which protect existing Canadian production. The safeguards will continue to affect investment for manufacturers still subject to their terms. During model years 1973-75, Chrysler failed to meet its production safeguards and was required to establish new facilities for the production of trucks in Canada. In 1980, both Chrysler and Ford failed to meet the Auto Pact's safeguards and rather than pay duties on their imports into Canada, undertook additional investments in Canada.

In addition, the safeguards will apply to future joint ventures if the majority partner (51 percent or more) is a qualified manufacturer operating under the Auto Pact in Canada.

Moreover, the Auto Pact provides no preference for U.S.-built parts over third-country parts when imported by qualified manufacturers. Vehicle manufactures operating under the Auto Pact in Canada are indifferent with respect to the purchase of U.S.-built parts or parts from third-countries. Once a manufacturer satisfies the safeguards, it can import duty-free from any country.

Tariffs -- The FTA phases-out Canadian duties on new vehicles and parts from the U.S. ratable over 10-years beginning January 1, 1989. Overtime, this will assist manufacturers such as Mazda export U.S.-built vehicles to Canada duty-free. It will also help U.S.-based parts suppliers sell to the newly established Japanese and Korean-owned manufacturers based in Canada.

Nevertheless, the 10-year tariff phase-out is the longest possible under the FTA. During this period, while all Canadian-built vehicles and parts are eligible to enter the U.S. duty-free, U.S.-built parts purchased by foreign-owned manufacturers in Canada, and vehicles built in the U.S. by foreign-owned manufacturers, will face Canadian duties. In the longer term, the benefits of the 0 Canadian tariff will be offset by the lingering effects of the Canadian duty remission program.

Rule of Origin -- The FTA imposes a tougher new Rule of origin for duty-free entry into the U.S. for all Canadian-built vehicles and parts. The Rule of Origin states that least 50 percent of the total direct costs of manufacturing a vehicle, engine and transmission, be of U.S. and/or Canadian origin.

The new Rule of Origin, while tougher, is too low. It does not provide enough incentive for vehicle manufacturers to source the engine and transmission in the U.S. or Canada Increasing the Rule of Origin to 60 percent would partially address this concern and be in the mutual interest of parts suppliers in both countries.

The engine and transmission represent approximately 30 percent of the total manufacturing costs of a vehicle. As a result: vehicle manufacturers in Canada, specifically those operating under the Auto Pact, will be able to import duty-free engines and transmissions having an origin other than U.S. and/or Canadian,

assemble these components in vehicles in Canada, and qualify such vehicles for duty-free treatment when entering the U.S.

But the problems of the Rule of Origin go beyond the manufacturers' sourcing of the engine and transmission. Not all automotive parts are subject to the 50 percent requirement. The reality is that the 50 percent Rule of Origin could be much less.

The Rule of Origin makes it possible for certain automotive parts to be determined of Canadian origin even though all the steel, aluminum, plastic, or other materials used in the parts are imported from third-countries, and the amount of processing in Canada equals less than 50 percent. For those parts, Canadian origin is conferred when a change in tariff classifications takes place. When exported to the U.S., it would enter duty-free.

In addition, inclusion of such parts in vehicle built in Canada would allow the manufacturer to count that part as entirely of Canadian origin for purposes of determining whether the vehicle is eligible for duty-free treatment when exported to the U.S. This would also be the case for subcomponents of the engines and transmissions, which of themselves must also meet the 50 percent Rule of Origin.

It should be noted, by way of comparison, that the Rule of Origin in the case of vehicles entering into trade within the European Free Trade Area (EFTA) is tougher than the FTA Rule of Origin for vehicles. The EFTA, consisting of Austria, Finland, Ireland, Norway, Sweden, Switzerland, and the counties of the European Economic Community (EEC), requires vehicles to meet a 60 percent Rule of Origin, based upon net value added, in order to trade duty-free.

Duty Remission -- The FTA ends Canada's "export-based" duty remission program effective January 1, 1989, **for exports to the U.S.** Under this program Canada grants certain motor vehicle manufacturers (but not those operating under the Auto Pact) that purchase Canadian-built parts for export to the U.S. a reduced duty on imports into Canada of completed vehicles. Ending this program will eliminate subsidized exports of Canadian-built parts to the U.S.

While the export-based duty remission program was terminated immediately for exports to the U.S., it is continued through January 1, 1998, **for exports to third-countries.** This will allow subsidized Canadian exports to third-countries, primarily Japan and Korea, in direct competition with U.S.-built parts which do not benefit from similar subsidies. This action has probably negated whatever gains may have been made during the recent MOSS negotiations on automotive parts between the U.S. and Japan.

Moreover, the FTA allows Canada to continue its "production-based" duty remission program through 1995 for certain foreign-owned manufactures in Canada named in the FTA. Under this program, Canada grants a reduced duty on vehicles and parts imported into Canada by a vehicle manufacturer provided that manufacturer increases over time the amount of Canadian value added in its Canadian assembly operations. This program discriminates against the purchase of U.S.-built parts, and distorts parts supplier investment to Canada during the critical period that eligible foreign-owned manufacturers are establishing sourcing patterns for the Canadian assembly operations.

The fact that the duty remission programs were retained for up to 10 more years has troubling economic and legal aspects for the State of Michigan. From an economic standpoint, the duty remission programs, particularly the production-based program, distorts trade and investment to the benefit of Canada, and these effects will linger long after the program has been terminated.

Manufacturers eligible for the program will seek parts from Canadian-based suppliers in order to qualify for reduced duties on vehicles and other parts imported into Canada. Once supply contracts enter into force, Canadian-based suppliers can expect a long-term relationship with the manufacturers. In addition, parts suppliers from the U.S. and Japan will face strong pressure to locate in Canada since manufacturers will want to purchase parts from a Canadian-based operations in order to qualify for a reduced duty on imports. These investments are unlikely to be abandoned once the duty remission program ends.

From a legal standpoint, the duty remission programs appear inconsistent with GATT. In September 1985, Governor Blanchard wrote Ambassador Yeutter asking for an analysis of the legal status of the export-based program under GATT. A subsequent legal analysis, secured with the help of Congressman John Dingell and Senator Carl Levin, stated:

> "Since duty remission benefits are directly tied to the amount of Canadian value added contained in auto parts exported by the beneficiary company, duty remission appears to be an export subsidy inconsistent with Article 9 of the GATT Subsidies Code."

Ambassador Yeutter stated that he would seek elimination of the program during the negotiations.

In November 1987, Governor Blanchard again wrote Ambassador Yeutter when it was revealed that the production-based program was to be retained for a number of years. The Governor made this request pursuant to section 305 of the Trade Act, in order to obtain information about the program not available within the U.S. government. Nevertheless, the U.S. agreed in the final text of the FTA to honor the Canadian government "contracts" with foreign-owned manufacturers sight unseen.

Pursuant to the Governor's request, Ambassador Yeutter wrote the Canadian Ambassador on January 29, 1988, requesting copies of these "contracts." In that letter, Ambassador Yeutter stated his willingness to work with the Government of Canada to protect against the disclosure of business confidential information, should that be an issue of concern. Over three months have elapsed, and the Canadian government has not substantively responded to the Ambassador's request.

It is my belief that the production-based duty remission program contains requirements to purchase products of Canadian origin and would be illegal under Article III (National Treatment) of the GATT.

VIEWS OF AUTOMOTIVE SECTOR INTERESTS

Views in the automotive sector range from almost complete satisfaction to outright opposition. While I have discussed the automotive provisions of the FTA with those interests directly concerned, I cannot do justice to the totality of their views in this space. I would urge the Committee to solicit their views directly.

Motor Vehicle Manufacturers Association The major motor vehicle manufacturers in the U.S. are represented by the Motor Vehicle Manufacturers Association (MVMA). The Association is dominated by Chrysler, Ford, and GM. Other members include Honda, and a number of larger and smaller truck, bus and speciality vehicle manufacturers.

To a large extent vehicle manufacturers in the U.S. are satisfied with the automotive provisions of the FTA. The Auto Pact remains unaltered for U.S.-owned vehicle manufacturers in Canada -- the Canadian subsidiaries of Chrysler, Ford and GM. Because the U.S.-owned manufacturers operating under the Auto Pact in Canada far exceed the minimum requirements of the safeguards, they are able to import third-country (and U.S.) vehicles and parts into Canada duty-free -- for an estimated duty savings of $300 million each year. This will place the U.S.-owned manufacturers at a competitive advantage vis-a-vis the Japanese and Korean-owned manufacturers in Canada.

The tougher Rule of Origin is acceptable. At 50 percent direct cost of manufacturing, the new Rule of Origin makes it more difficult for the Japanese and Korean-owned manufacturers in Canada to qualify their vehicles for duty-free treatment when exporting to the U.S. It also makes it more difficult for foreign-owned manufacturers in the U.S. to export vehicles to Canada at the preferential (or 0 after the phase-out) duty rate, in competition with the vehicles of Chrysler, Ford and GM sold in Canada. On the other hand, the new Rule of Origin was not so tough that the U.S.-owned manufacturers would have to alter their purchasing decisions and production operations in order to maintain duty-free treatment for their Canadian-built vehicles exported to the U.S.

In general, Chrysler, Ford, and GM would be willing to accept a 60 percent Rule of Origin.

The duty remission programs do not benefit the U.S.-owned manufacturers operating under the Auto Pact in Canada. Nevertheless, MVMA believes the agreed termination dates are a reasonable compromise. The result is that the Japanese and Korean-owned manufacturers in Canada have marginally improved the competitive position of their vehicles in Canada.

United Auto Workers The UAW, until 1986, represented automotive workers in the U.S., and at the Canadian subsidiaries of Chrysler, Ford and GM.

The UAW has expressed strong reservations about the FTA because it does not adequately address the interests of U.S. auto workers. The FTA preserves the one-sided Canadian implementation of the Auto Pact and does not provide enough incentive for vehicle manufacturers to source components in the U.S. and Canada.

The failure to implement the Auto Pact in the U.S. on the same basis as Canada will continue to provide protection to Canadian workers and production in the event of a shrinkage of capacity. The continuation of the export and production-based duty remission programs will skew sourcing and investment decisions to Canada, to the detriment of U.S. workers.

The UAW's desire to increase the percentage of the 1965 Rule of Origin was partially achieved by changing it to a "direct cost of manufacturing" basis. A higher Rule of Origin would have greatly limited the ability of U.S.-owned manufacturers operating under the Auto Pact in Canada from sourcing components from third-countries duty-free, while causing an increase in the purchase of components from U.S. (and Canadian) suppliers for vehicles exported to the U.S. The UAW continues to press for an increase in the new Rule of Origin to 60 percent.

Automotive Parts Industry The automotive parts industry is represented by two associations, which reflects the two largely distinct segments of the industry.

Motor Equipment Manufacturers Association -- The Motor Equipment Manufacturers Association (MEMA) represents essentially the large, in-house parts subsidiaries of the U.S. automotive manufacturers, large multinational firms with parts subsidiaries, and larger automotive parts suppliers in the U.S.

In general, parts suppliers represented by MEMA support the FTA and its automotive provisions, although they were deeply disappointed that the new Rule of Origin was not set at 60 percent. MEMA's objections to the duty remission programs were only partially addressed with the immediate termination of the export-based program to the U.S.

MEMA has a great interest in increasing the new Rule of Origin to 60 percent. At this time, MEMA believes the Blue Ribbon Panel seems the most likely means of achieving this goal.

Automotive Parts and Accessories Association -- The Automotive Parts and Accessories Association (APAA) represents essentially smaller parts suppliers who do not have facilities in Canada or other countries, and are engaged in production primarily for the "aftermarket."

APAA is opposed to the FTA and its automotive provisions. It objects to the "safeguards" of the Auto Pact, and the incentives provided to U.S.-owned manufacturers operating under it in Canada to import parts from third-countries duty-free. The failure to immediately end the duty remission programs, in combination with the 10-year phase-out of Canadian duties on original equipment parts, will limit parts supplier sales to the Japanese and Korean-owned manufacturers in Canada.

In general, the new 50 percent Rule of Origin is acceptable. Increasing it to 60 percent, without eliminating Canadian subsidies of foreign-owned parts suppliers, it is feared, will have the side effect of inducing more foreign-owned suppliers to locate in Canada as a "platform" for export to the U.S. market.

From APAA's perspective, the FTA should be renegotiated.

FUTURE AUTOMOTIVE SECTOR NEGOTIATIONS AND THE BLUE RIBBON PANEL

In my view, the U.S. should not expect Canada to willingly resume negotiations in the automotive sector. Nor should we expect much from the Blue Ribbon Panel.

The Auto Pact will remain the most significant factor affecting U.S.-Canada automotive trade. It has become a permanent fixture of our trading relationship. Vehicle manufacturers and part suppliers have based investment and production decisions upon it, and are loathe to see those decisions adversely affected. Canada, and for that matter, the U.S., are committed to the Auto Pact, despite the stated U.S. position that it does not recognize the safeguards.

The FTA essentially reaffirms the Auto Pact as a fixture in our relationship. Canada was not willing to entertain changes in the Auto Pact during the negotiations. I am not optimistic that Canada will entertain changes in the future.

The FTA directs the establishment of a "Blue Ribbon" Panel to "assess the state of the North American industry and to propose public policy measures and private initiatives to improve its competitiveness in domestic and foreign markets." In undertaking this charge, the Panel should assess ways to make the North American industry truly integrated, free from trade and investment distorting measures and performance requirements, and globally competitive. Toward this end, the Panel should consist of representatives from parts suppliers with operations only in the U.S., and state government. Both will focus on practices that will enhance their ability to compete, expand employment, and maintain a high standard of living for their employees and citizens.

Workers must also be represented. They should reflect as much as possible the diversity of the vehicle and parts supplier industries in the U.S.

Finally, representatives of the major U.S.-owned and foreign-owned vehicle and parts suppliers should be included.

The Blue Ribbon Panel is also being held out as a means of obtaining the agreement of Canada to increase the Rule of Origin to 60 percent. I am not optimistic about this outcome. It is not clear that Canada has the same interest in using the Panel for this purpose. Moreover, Canada was unwilling to accept a 60 percent Rule of Origin phased-in over 10-years during the negotiations. There would seem little reason for Canada to accept it if the FTA is implemented.

The use of the Panel to achieve this end should be fully explored and it should be the first order of business. Nevertheless, we should be aware that by itself the panel is unlikely to create a strong inducement toward this end.

INCENTIVES AND DOMESTIC SUBSIDIES FOR THE AUTOMOTIVE SECTOR

Both the U.S. and Canada make extensive investment incentives and subsidies available to vehicle manufacturers and parts suppliers, although of differing kinds.

In the U.S., many incentives are to attract automotive sector investment -- in recent years, a growing portion of it foreign. These practices have become the focus of increasing attention, because of the competitive distortions created between the new and existing investments.

In Canada, a large variety of incentives and domestic subsidies for investment and operation are available. In general, Canadian incentives and subsidies tend to be more extensive and more generous -- reflecting the historical role and greater Canadian government involvement in the development of business. In the automotive sector, these practices include low or no interest loans, grants of land, water, and utilities, and government subsidies for R&D expenses.

The U.S. and Canada agreed in the FTA not to "discipline" subsidies. Neither side was willing to do so at this time.

This, too, represents a missed opportunity -- the benefits of which would have largely flowed to the U.S. Limiting the larger Canadian subsidies, or reducing the number of subsidy programs, would have benefited U.S. manufacturers competing against Canadian products in the U.S. and Canada.

At a minimum, the U.S. should have insisted on greater "transparency." Unlike the U.S., Canadian incentives and subsidies to business are generally not made public. Greater public scrutiny of these practices would have likely limited their use and size.

CANADIAN DUTY SUSPENSION POLICY

The use of duty suspension by Canada has troublesome policy implications that were not addressed during the negotiations.

Unlike the EEC, the U.S. and Canada have agreed to establish a "free trade area" rather than a common market. The distinction is critical. Under a common market, the governments agree to equalize their external duties with third-countries, while under a free trade area the governments are able to unilaterally adjust their external duties.

This has been the situation in the automotive sector during the past 23 years. The effect on the U.S. automotive sector of Canada's ability to administratively adjust its external duties has been to attract investment from the U.S.

The problems that occur are the result of several factors. The U.S. government has used temporary relief measures, such as quotas or high tariffs, to assist its domestic steel industry. The Canadian government has used its privileged access to the U.S. automotive products market to the disadvantage of the very industry the U.S. is attempting to assist. Where a U.S.-based parts supplier uses imported steel, Canada will agree to suspend its duty on that imported steel if the supplier locates in Canada. Because Canada's steel industry is not as diverse as the U.S. industry, it would not be affected when duties are suspended on the imported steel.

The result: U.S. parts suppliers have moved to Canada where they import the same steel products from third-countries into Canada duty-free. Once that steel is processed into an automotive part, it may enter the U.S. duty-free. The U.S. loses jobs, investment, and local tax revenues; the parts are still sold in the U.S., but at a competitive advantage.

This scenario would not change appreciably even in the absence of import quotas. The ability to avoid U.S. duties alone would be sufficient incentive to locate in Canada.

During the past few years, the Michigan Department of Commerce has learned of several companies that have moved or are contemplating locating in Canada. The most serious one involved a growing automotive parts supplier who received a large contract to begin supplying a major U.S. vehicle manufacturer during 1988. Approximately 50 percent of the supplier's steel was of U.S. origin; the other steel used was imported. A comparable steel product was not made in the U.S.

Canada agreed to suspend its duty on the imported steel if the supplier located it operation in Canada. A decision by the supplier is pending. If the supplier does relocate, Michigan will lose the new jobs and investment necessary to satisfy the contract, and the U.S. steel industry will lose sales, since the supplier is expected to shift its U.S. purchases to Canadian steel producers.

The FTA did not address this issue. The FTA only requires Canada, if it decides to suspend a duty on imported products, to suspend the duty for all importers of the product, rather than on a case-by-case basis. Moreover, Canada is not obligated to consider whether a U.S. product exists when determining whether to suspend its duty on a similar third-country product. The effect is that U.S. manufacturers have no preference when exporting the U.S. product to Canada.

The failure to address this issue could in time undermine U.S. defense policy. In the future, the U.S. may decide to regulate imports in order to assist an industry vital to our national defense. Where the U.S. decides, for example, to assist the machine tool industry, computer chip manufacturers, and others, Canada could eliminate duties on similar third-country products as a way of attracting users of these products to Canada.

To be sure, the new Rule of Origin will ensure that some processing is undertaking in Canada to transform the imported third-country product into a new article eligible to enter the U.S. duty-free under the FTA. However, the Rule of Origin only addresses the "trade effect." It does not address the "investment effect" -- that is, the use of duty suspension on third-country products to attract investment and jobs from the U.S.

CONCLUSION

In conclusion, the State of Michigan's criticisms of the FTA go to a number of the changes that were made, and the failure to make others. The U.S. has lived with "free trade" in the automotive sector with Canada for 23 years, and the "benefits" of the Auto Pact have jaded us to the alleged benefits of the FTA for automotive trade. Our concern is that many of the proclaimed benefits will be limited, or of no benefit at all, or otherwise offset by Canadian practices as yet not addressed.

The problems in the automotive sector require immediate action by the Administration in the context of implementing legislation for the FTA or by some other means. Specifically,

-- The Administration should use every available means to engage the Canadian government in a reconsideration of the adequacy of the Rule of Origin, focusing on its operation and the percentage.

-- The Administration should vigorously pursue U.S. rights in the GATT when Michigan files its 301 case against the illegal Canadian duty remission programs in the automotive sector.

-- The Administration should forcefully state that it will withdraw from the Auto Pact if any new motor vehicle manufacturers -- specifically future joint ventures -- qualify for Auto Pact status in Canada.

-- The Administration must develop options to respond to the investment distorting effects of the Canadian duty suspension policy.

5/9/88

SIDE-BY-SIDE ON THE TERMS AND CONDITIONS AFFECTING U.S.-CANADA AUTOMOTIVE TRADE PRIOR TO AND UNDER THE FREE TRADE AGREEMENT

PROVISION	PRIOR TO FTA	FTA	COMMENTS/ANALYSIS
I. DUTY REMISSION PROGRAM			
a) Export-based	Canada gives foreign-owned vehicle manufacturers that purchase Canadian parts for export a remission (rebate) of duties on vehicles the manufacturers import into Canada.	Canada agreed to terminate this program as of January 1, 1989, only for exports to the U.S.	In 1986, USTR determined this program was a GATT-illegal export subsidy. Termination of the program removes the subsidy prompting foreign-owned vehicle manufacturers in the U.S. to purchase Canadian-built parts over U.S.-built parts in order to obtain a remission of duties on vehicles the manufacturers import into Canada. However, remissions will be available for foreign-owned vehicle manufacturers in Canada purchasing Canadian-built parts for export to countries other than the U.S., thereby placing U.S.-built parts at a competitive disadvantage in those countries.
b) Production-based	Canada gives foreign-owned vehicle manufacturers that purchase Canadian-built parts for use in their Canadian assembly operations a remission (rebate) of duties on vehicles and parts the manufacturers import into Canada.	Canada is allowed to continue this program through December 31, 1995. The program cannot be expanded or enhanced during this period, or renewed.	Honda, Hyundai, Toyota and GM-Suzuki in Canada are eligible for duty remissions under this program. It discriminates against U.S.-based parts suppliers; purchases of U.S.-built parts will not qualify these manufacturers for duty remissions on vehicles and parts they import into Canada. It distorts investment; U.S. and foreign-owned parts suppliers will be encouraged to locate in Canada to help these manufacturers qualify for remissions. The result: once long-term supply contracts with foreign-owned manufacturers enter into force and investments are made, termination of this program will not create new opportunities for U.S.-based parts suppliers.

II. AUTO PACT	All motor vehicle manufacturers in Canada may qualify.	Only motor vehicle manufacturers in Canada currently qualified, and possibly one additional major vehicle manufacturer, can operate under the Auto Pact.	Only the Canadian subsidiaries of Chrysler, Ford and GM (plus Volvo and certain truck manufacturers) are currently qualified. The GM-Suzuki joint venture could become qualified by the close of Model Year 1989. No other vehicle manufacturer can become qualified under the Auto Pact.
a) Production-to Sales Ratio	Each vehicle manufacturer in Canada must assemble one vehicle in Canada for every vehicle sold in Canada.	Unchanged	These requirements protect Canada against increased imports of vehicles and parts by the vehicle manufacturer's Canadian subsidiaries. The production-to-sales and Canadian value-added requirements ensure that vehicle production 1) in units, will not fall below the number of vehicles sold in Canada, and 2) in value, will be not less than 60 percent of value of vehicles sold in Canada The U.S. has no similar requirements protecting U.S. production. Moreover, Canada gives no preference to U.S.-built parts over third-country parts that are imported by the manufacturer's Canadian subsidiaries. Foreign-owned vehicle manufacturers in Canada will not be subject to these requirements. This places U.S.-based parts suppliers on an equal footing with Canadian-based suppliers in selling to the foreign-owned vehicle manufacturers in Canada. Nor will foreign-owned vehicle manufacturers be eligible for mulitilateral sourcing. This removes the incentive for new foreign-owned vehicle manufacturers to locate in Canada.
b) 60 percent Canadian value-added	The value of each vehicle manufacturer's production and parts purchases in Canada must equal 60 percent of the value of the manufacturer's vehicle sales in Canada.	Unchanged	
c) Mulitilateral Sourcing of Parts and Vehicles	Vehicle manufacturers in Canada meeting a) and b) above are "qualified" to import vehicles and original equipment parts into Canada duty-free from any country, including the U.S.	Unchanged	

III. TARIFFS	Canada imposes a 9.2 percent (1987) duty on new motor vehicles and 8% (1987) duty on most original equipment parts imported by vehicle manufacturers that are not "qualified" under the Auto Pact. Canada imposes an 8% duty on most replacement parts. The U.S. imposes no duty on new vehicles and original equipment parts from Canada if those articles meet the Standard of Preference (see IV. below). The U.S. imposes a 3.1% duty on replacement parts.	Canada agreed to phase-out duties on new vehicles and parts from the U.S. ratably over 10 years beginning January 1, 1989. The U.S. and and Canada agreed to phase-out duties on replacement parts ratably over 5 years.	"Qualified" vehicle manufacturers in Canada can continue to import vehicles and parts into Canada duty-free. Foreign-owned vehicle manufacturers in the U.S. cannot export to Canada duty-free. After 1998, foreign-owned manufacturers in the U.S. will be able to export vehicles to to Canada duty-free -- a situation that exists presently for all vehicles exported to the U.S. from Canada. The extended phase-out provides continued protection to the Canadian market, and enhances Canada's ability, by comparison with the U.S., to attract new investment during this period.
IV. STANDARD OF PREFERENCE	Canada does not use a Standard of Preference. Only "qualified" vehicle manuacturers in Canada are able to import vehicles and parts into Canada duty-free. The U.S. allows a motor vehicle or part built in Canada to enter the U.S. duty-free provided that at least 50% of the appraised value of the vehicle or part is of North American (U.S.-Canada) origin.	For U.S.-built vehicles and parts imported into Canada by "qualified" manufacturers, duty-free entry remains unchanged. For vehicles built in the U.S. by foreign-owned manufacturers and exported to Canada, and all U.S.-built parts for foreign-owned manufacturers in Canada, the standard is 50% "direct cost of manufacturing." For Canadian-built vehicles exported to the U.S. by "qualified" vehicle manufacturers and foreign-owned manufacturers, the standard is 50% "direct cost of manufacturing." For Canadian-built parts exported to U.S. vehicle manufacturers whose subsidiaries are "qualified" in Canada and foreign-owned vehicle manufacturers in the U.S., the standard is 50% "direct cost of manufacturing."	The 50% North American direct cost of manufacturing standard creates an incentive for foreign-owned vehicle manufacturers in the U.S. and Canada, and "qualified" manufacturers in Canada, to purchase U.S. and Canadian-built parts in order for vehicles built by all manufacturers in Canada to enter the U.S. duty-free, and for vehicles built by foreign-owned manufacturers in the U.S. to enter Canada at a reduced (or 0 after 1998) duty (see III. above). However, the 50% standard does not provide enough incentive for vehicle manufacturers to purchase the engine and drive train, and a large portion of the other major components, in North America.

V.	FOREIGN TRADE ZONE/INWARD PROCESSING PROGRAM	Foreign parts may be imported into a U.S. Foreign Trade Zone duty-free, assembled in a vehicle and, upon entering the "customs territory" of the U.S., a 2.5% duty is imposed. No U.S. duty is imposed if vehicles are exported to Canada. The Canadian Inward Processing Program is substantially similar to the Foregin Trade Zone Program.	All vehicles "exported" from a Foreign Trade Zone will pay the U.S. duty, including those exported to Canada, after 1993. Canada will impose a duty on all vehicles "exported" under the Inward Processing Program, including vehicles exported to the U.S., after 1993.	Canada claimed that Foreign Trade Zones were a subsidy for the export of foreign parts to Canada. This approach removes the subsidy aspect and allows both the U.S. and Canada to collect duties when all vehicles are exported from Zones or Inward Processing locations.
VI.	DUTY DRAWBACK	Duty drawback permits the rebate of duties paid on imported components when products containing those components are exported. Both the U.S. and Canada use duty drawback programs.	Duty drawback is eliminated after 1993 for products exported to the other country.	The continuation of duty drawback through 1993 will encourage foreign-owned vehicle manufacturers in Canada to import third-country parts for assembly into vehicles that are exported to the U.S. duty-free in order to receive the drawback. All manufacturers in the U.S. assembling vehicles containing foreign parts would receive a duty drawback through 1993 when those vehicles are exported to Canada. However, Canadian duties would still be assessed during this period only on vehicles assembled in the U.S. by foreign-owned manufacturers.

VII. MISCELLANEOUS

a) "Used Car" Embargo	Canada prohibits the importation of most used motor vehicles. The U.S. has no similar prohibition. .	Canada agreed to phase-out the prohibition over 4 years, according to the following schedule: in 1989, vehicles produced in Model Year (MY) 1981 and before; 1990, MY 1984 and before; 1991, MY 1987 and before; 1992, MY 1990 and before; and, 1993, MY 1993 and before.	Used vehicles exported to Canada would still be assessed duties as negotiated under the agreement.
b) Blue Ribbon Panel	No provision.	The U.S. and Canada agreed to establish this Panel to assess the state of the North American industry and to propose public policy measures and private initiatives to improve its competitiveness in domestic and foreign markets.	No beginning or ending date for the deliberations of the Panel were established.
c) Cooperation in Multilateral Round	No provision.	The U.S. and Canada agreed to cooperate in the Uruguay Round of multilateral trade negotiations to create new export opportunities for North American automotive products.	

Prepared by the Michigan Department of Commerce

SENATOR GLENN'S
QUESTIONS FOR THE RECORD

Mr. Marc Santucci

1.

In your testimony, you identified major changes that the FTA will make to our auto trading relationship with Canada.

The FTA will prevent the privileges of the Auto Pact from being extended to any companies other than Chrysler, Ford, GM, and perhaps CAMI, the GM-Suzuki joint venture. As I understand it, the effect of this, in combination with the almost immediate elimination of duty remissions on autos exported to the United States, is to get rid of strong incentives for foreign auto manufacturers to use Canada as an export platform to the United States.

The FTA also adopts a rule of origin based on direct costs of manufacturing to govern duty-free entry of Canadian autos and auto parts into the United States. This is a "tougher" rule than that established in the Auto Pact.

The FTA eliminates Canada's export- and production-based duty remission schemes. At present, the former appears to represent a subsidy to exports; the latter, a subsidy to Canadian producers and suppliers. Before the FTA negotiations, Canada seemed unwilling to terminate either of these seemingly damaging programs.

Will these changes make our auto manufacturers and auto parts suppliers better or worse off than they are right now?

2.

In a chapter on the auto sector attached by Professor Wonnacott to his testimony, he writes the following:

> "What would the consequences be if the FTA were rejected? For the auto industry, a rejection of the FTA would leave unfinished business on the table. The preexisting situation is quite unstable, particularly with the Canadian duty-remission programs. There would be two possible outcomes. Specific negotiations could be undertaken to deal with the outstanding problems. In this case, something like the auto clauses of the FTA would represent about as good an outcome as I can envisage. The other alternative would be to do nothing, but this would risk a major confrontation in the next few years over Canadian subsidies on automotive exports to the United States. We can address our auto problems now, or we can address them later, when they will have become much more intractable."

Do you agree with this assessment?

3.

In your testimony, you noted that the new Rule of Origin under the FTA is tougher on third country auto producers and will make it harder for them to operate duty-free in the U.S. and Canada.

(a) With this new Rule of Origin, and the elimination of Canada's "export-based duty remission" program, are there likely to be beneficial effects on the economies of scale that U.S. and Canadian auto manufacturers will now be able to realize?

(b) Will this result in North America becoming a bigger sourcing point for the world auto market?

4.

Ambassador Holmer and Professor Wonnacott both noted that there is a favorable impact in the energy provisions of the FTA on consumers. Will greater access to Canadian energy supplies also benefit the auto industry?

5.

Under the FTA's government procurement provision, U.S. suppliers will be able to compete freely above a $25,000 threshold in the Canadian government procurement market without being subject to "Buy Canadian" restrictions. How does the auto sector view this change in policy?

Marc Santucci's answers for Senator Glenn's written questions

Question 1: In your testimony, you identified major changes that the FTA will make to our auto trading relationship with Canada....Will these changes make our auto manufacturers and auto parts suppliers better or worse off than they are right now?

Answer: The changes made in the proposed FTA will make our companies better off than they are now. However, your question does not address what I view as the real problem. Namely, that the Administration had an opportunity to address long standing inequities in automotive trade between the U.S. and Canada. Also, the duty remission program was illegal and should not have been a negotiable item. The administration failed to adequately address these problems.

Question 2: "What would the consequences be if the FTA were rejected? For the auto industry, a rejection of the FTA would leave unfinished business on the table. The preexisting situation is quite unstable, particularly with the Canadian duty-remission programs. There would be two possible outcomes. Specific negotiations could be undertaken to deal with the outstanding problems. In this case, something like the auto clauses of the FTA would represent about as good an outcome as I can envisage. The other alternative would be to do nothing, but this would risk a major confrontation in the next few years over Canadian subsidies on automotive exports to the United States. We can address our auto problems now, or we can address them later, when they will have become much more intractable."

Answer: I do not totally agree with Professor Wonnacott's assessment. While I believe that the preexisting situation was quite unstable, I do not believe that without the FTA the outcome for sectoral negotiations in the auto sector would have been the same. Our auto and auto parts trade deficit with Canada will increase as the Asian transplants that have located in Canada begin producing and exporting their vehicles. Many of the products being exported from the Canada to the U.S. receive illegal subsidies. If there were no FTA negotiations, our focus would have been on these illegal Canadian practices, and the U.S. government's actions would likely have been much closer to what was done in the softwood lumber case. The administration wanted an FTA from political (both U.S. and Canadian) and other reasons. Because Canada did not want to negotiate away its auto related safeguards, Secretary Baker and Ambassador Yeutter personally decided to sacrifice the auto sector in order to obtain an agreement. I do agree that the problem would have gotten worse without the FTA. However, I don't agree that the FTA has solved the problem. It will continue to be a sore point.

Senator Levin's Written Questions
Governmental Affairs Committee hearing on
U.S. - Canada Free Trade Agreement
May 9, 1988

PANEL III: MARC SANTUCCI, STATE OF MICHIGAN

(1)

You have stated in your testimony that "the automotive provisions reflect a disturbing lack of understanding of the operation and economics of the automotive sector."

Can you give some specific examples of where this lack of understanding affected the outcome of the negotiations?

(2)

Will our failure in the FTA to get rid of Canadian performance requirements and duty waiver programs in the auto sector and other sectors impact on future trade negotiations with other countries?

Marc Santucci's answers to Senator Levin's written questions

Question 1: Can you give some specific examples of where this lack of understanding affected the outcome of the negotiations?

Answer: The administration's lack of understanding is best exemplified by their treatment of the duty remission issue. Canada has used duty remissions as an incentive for new investment. In the past they have offered duty remissions to both auto and non-auto related companies conditioned on new investment and export performance. The duty remission programs usually have a fixed life and expire after several years unless new investments are made. The U.S. Government accepted, without question, Canada's contention that the production-based Duty Remission program was a contract that had to be honored. They believed that by obtaining a commitment to end the duty remissions by 1996, they had solved the problems associated with the program. What they failed to understand was: 1) that Canada had no intention of extending that particular program -- their intention was to graduate these producers to Auto Pact status, and failing that, the program would have served its purpose (attracting the initial investment) and been eliminated, and 2) to the extent the export-and production-based duty remission program skewed investment to Canada and/or increased the purchase of Canadian parts, and given Japanese purchasing practices, the elimination of duty remissions in 1996 and beyond would not change the purchasing relationships they have established and would not cause investors to shut down their Canadian facilities. Simply put, duty remissions, for up to ten years, may be enough of an incentive to invest in Canada or to purchase Canadian parts. Its subsequent elimination is not enough to reverse those actions.

Question 2: Will our failure in the FTA to get rid of Canadian performance requirements and duty waiver programs in the auto sector and other sectors impact on future trade negotiations with other countries?

Answer: I truly believe that our acquiescence to Canada's continued use of performance requirements will inhibit our attempts to bring some multilateral discipline to their use. By allowing a developed country like Canada to continue for an extended period of time these export and local content performance requirements, we have put ourselves in a hopeless position vis-a-vis developing countries like Brazil and Mexico. Much of the growth in auto and auto parts production will take place in the developing countries. All of these countries make extensive use of performance requirements in the auto sector. They will argue that if Canada is allowed to continue these types of programs for up to 10 years, then they should be allowed to maintain them as well until they reach Canada's level of economic development. This will have the effect of shutting our auto related goods out of their market indefinitely, while our market remains open to their products.

STATEMENT
OF
JAMES F. COLLINS, PRESIDENT
NATIONAL STEEL PRODUCERS ASSOCIATION

ON

PROPOSED FREE TRADE AGREEMENT
BETWEEN
THE U.S. AND CANADA

AT HEARING OF
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
MAY 9, 1988

Mr. Chairman, I am presenting views on the U.S./Canada trade agreement for the National Steel Producers Association, a trade group of nine U.S. steel companies. The phasing out of steel tariffs between the two countries under the agreement should be beneficial to U.S. steel producers, since U.S. steel import duties are substantially below those of Canadian producers. Moreover, transhipped steel from other countries will not be accorded duty free treatment when entering the U.S. from Canada, unless further fabricated, which is also beneficial to U.S. producers. On balance, therefore we do not oppose the successful conclusion of the proposed agreement.

We would, however, urge that the two governments address two important additional issues, outside of, but simultaneously with, the conclusion of the agreement. These concern the relationship of the two currencies, and the steel VRA's.

In light of our national concern over trade and current account deficits, we shall comment upon current account and merchandise trade balances, of the United States and Canada, and also upon the steel trade balances between the two countries.

As Table I (attached) indicates, a serious deterioration has occurred since 1984 in the international economic position of the United States. During the four years, 1984-1987, the U.S. incurred a cumulative deficit of $538 billion on its balance of trade in merchandise. More significant, the U.S., during this same period, incurred a cumulative deficit of $525.5 billion in its balance on current account. In a few years, the U.S. has shifted from a major creditor nation to a major debtor nation. In contrast, during the eight years, 1973 through 1980, the U.S. had a cumulative surplus of $4 billion in its balance on current account.

The Canadian balance on current account and on merchandise trade in the 1980s is in sharp contrast to the U.S. record. Table II below shows two major components of Canada's balances, 1981 through 1987:

Table II

SELECTED COMPONENTS OF CANADA'S BALANCE OF PAYMENTS, WITH ALL COUNTRIES 1981-1987*
(billions of U.S. dollars)

Year		Current AccountMerchandise
1982	2.4	14.4
1983	2.4	14.3
1984	2.6	16.0
1985	-0.9	12.4
1986	-6.7	7.5
1987	-7.2	7.7
Net Balance	-7.4	$72.3

*Source: U.S. Treasury Department

During 1982-1987, Canada achieved a cumulative surplus of $72.3 billion (U.S. dollars) in its merchandise trade balance with all countries, in contrast to the U.S. merchandise trade deficit of $641.7 billion during that same period. Moreover, Canada was in near equilibrium in its balance on current account, during 1982-1987, incurring a deficit of $7.4 billion (U.S.), in contrast to the U.S. current account deficit of $580.5 billion during that period. Canada's overall balance on merchandise trade and on current account has been far stronger in the 1980s than that of the United States.

In regard to the bilateral trade record of the two countries, Table III below shows current account and merchandise trade balances between the United States and Canada since 1982.

Table III

U.S. BALANCE WITH CANADA ON CURRENT ACCOUNT AND ON MERCHANDISE TRADE, 1982-1987*
(billions of dollars)

Year	Current Account	Merchandise
1982	0.	-11.5
1983	-.1	-11.5
1984	-3.8	-14.6
1985	-8.6	-17.3
1986	-2.6	-13.3
1987	-.6	-11.9

*Source: Balance of Payments Data, Table 10, Survey of Current Business

During the years, 1982-1987, the United States incurred a cumulative deficit in its merchandise trade with Canada amounting to approximately $80.1 billion, and a cumulative deficit on current account of $15.7 billion.

These data, viewed in the abstract, are less meaningful when considering the positive benefits over the long term which may accrue to both countries from a free-trade agreement. But they are relevant to the relationship of the U.S. and Canadian currencies which prevailed during much of this period.

The basic function of exchange rates is to balance accounts among nations. Under the current flexible exchange rate policy, to which both the U.S. and Canada adhere, exchange rates, at least in theory, should adjust to reflect changes in national accounts. The fact that the bilateral trade and current accounts of Canada and the U.S. did not produce a greater increase in the value of the Canadian dollar against the U.S. dollar during the three years 1984 to 1986, is worth further study. Clearly, high U.S. interest rates triggered by the massive U.S. fiscal deficit had something to do with this. Canada's domestic policies may have also contributed. The fundamentals between the two countries, i.e., trade and current account balances, have led some to conclude that the Canadian dollar, during 1983-86, was undervalued against the U.S. currency. In nominal, non-inflation adjusted terms, the Canadian dollar value has, on average, been about 27% below the value of the U.S. dollar since 1980. Under Morgan Guarantee's index (Table IV) of real effective exchange rates (real rates, derived by adjusting for inflation differentials against a basket of trade-weighted currencies) the Canadian dollar, in 1984-86, was substantially lower in value than the U.S. dollar, despite Canada's surplus with the U.S. of $45 billion on merchandise trade and $15 billion on current account during those years.

Table IV

INDEX OF REAL EFFECTIVE EXCHANGE RATES - U.S. AND CANADA*

Year	U.S.	Canada
1982	109.7	101.8
1983	114.9	105.6
1984	120.8	102.7
1985	123.3	99.0
1986	106.6	94.4
1987	96.5	96.6

*Source: Morgan Guarantee Trust Company.

During 1982 to 1986, Table IV shows that the real value of the Canadian dollar averaged about 12 index points below that of the U.S. dollar, despite a U.S. cumulative merchandise trade deficit of $68 billion with Canada, and a deficit of $15 billion on current account. In 1987, however, the Canadian dollar and U.S. dollar did move into parity, in terms of real effective exchange rates. However, the very slow adjustment of the two currencies to a more realistic level in 1987, taking a full three years to reflect the fundamentals in the national accounts of the two countries, is of concern. It demonstrates how national policies can impede the operation of the market forces adjustment mechanism in a flexible exchange rate system, causing trade, in this case, to flow in the wrong direction. Obviously, domestic policies in both countries will affect the achievement of monetary equilibrium through market forces. But an effectively operating exchange rate relationship is the only basis upon which to build an enduring free trade relationship between the two countries. To date, the official position of both governments is that exchange rate relationships should be considered only in a multilateral context. Yet within its own trade union, the European Community has developed the European Monetary System (EMS). Accordingly, if the U.S. and Canada conclude a free trade agreement there should be no impedment to regular bilateral consultations on the effectiveness of the exchange rate relationship and on the domestic policies which affect that relationship.

Bilateral Trade in Steel

Major shifts have occurred in the balance of trade in steel between the United States and Canada:

TABLE V

U.S. BALANCE OF TRADE IN STEEL WITH CANADA*

Year	Thousands of Net Tons	U.S. Dollars (billions)
1982	-1,496	-$.402
1983	-1,991	-$.432
1984	-2,822	-$.859
1985	-2,553	-$.760
1986	-2,987	-$.899
1987	-3,255	-$1.061

*Source: Bureau of the Census - Highlights U.S. Export-Import Trade; U.S. Dept. of Commerce.

As Table V shows, Canada's favorable balance of trade in steel with the U.S. has more than doubled since 1982, both in tons and in dollars. In 1982, Canada had a net surplus in its steel trade with the U.S. approximating 1.5 million net tons. By 1987, this had increased to about 3.3 million tons. Canada's steel trade balance surplus expressed in U.S. dollars increased from about $400 million in 1982, to approximately $1 billion in 1987. The U.S. steel market is exceedingly important to Canada, accounting for as much as 25% of the entire Canadian steel industry's annual shipments.

Imports of steel products from Canada, comparable to those produced by several NSPA member companies, have also increased. In 1987, Canada accounted for 40.4% of total imports of hot rolled bars, compared to a range of 32%-34.4% in the three prior years. In 1986-87, Canada accounted for 31-32% of total cold finished bar imports, compared to 15%-17% in the two prior years. In 1986-87, Canada accounted for 28%-29.7% of imports of wire rod, compared to 24%-25.9% in the two prior years.

Canada has not entered into a VRA agreement on steel with the U.S. although all other countries with significant carbon steel exports to the U.S. have signed such agreements. The VRA's were bilaterally negotiated outside of the jurisdiction of the GATT. So were similar programs of several other countries, including the steel import and minimum price limitations of the European Community. All GATT member nations limiting steel imports take the position that their steel import limitation programs are consistent with GATT Article VI (antidumping and anti-subsidy provisions) and Article XIX (import limitations to remedy injury). However, the omission of Canada from participation in the steel VRA's appears to be inconsistent with GATT Article XIII embodying the most favored nation trade principle of non-discrimination among trading partners, a principle to which the U.S. has always subscribed. Imports of VRA signatories have been reduced and it is discriminatory treatment of those governments cooperating in the VRA program for the U.S. government to permit an increase in Canada's U.S. steel market share during this period. In making this point, we do not wish to imply that

Canadian steel producers are unfair traders. By and large, they are exceedingly competent, highly competitive, fair traders in steel. But in a world in which most of the international trade in steel is distorted by government policies, some fair trading countries, nonetheless, are also signatories to the VRA program. Accordingly, Canada should not be the only major steel trading nation exempted from the VRA provisions designed to effect the adjustment of the U.S. steel industry. It should participate in the VRA program.

In closing I wish to state that the concept of a U.S./Canada free trade agreement . . . a common market in North American from the Mexican border to the northernmost reaches of Canada . . . is appealing. The NSPA supports the proposed U.S./Canada trade agreement. But we do believe that such an agreement will succeed over the long term, only if it is based upon a sound exchange rate relationship. Therefore, we urge the Senate to ask the Administration to explore with Canadian officials the possible establishment of a bilateral consultations group meeting regularly to review currency and other policy issues in order to avoid impedments to an enduring free trade relationship between the two countries. This is bound to occur eventually, if such a relationship is to succeed, and better now than later.

Thank you Mr. Chairman.

Table I

SELECTED COMPONENTS OF U.S. BALANCE OF PAYMENTS, 1973-1987*
(billions of dollars)

Year	Current Account[1]	Merchandise[2]	All Goods and Services[3]
1973	7.1	.9	11.0
1974	2.1	-5.3	9.3
1975	18.3	9.0	22.9
1976	4.4	-9.3	9.4
1977	-14.1	-30.9	-9.5
1978	-14.8	-33.8	-9.7
1979	-.5	-27.3	5.1
1980	1.5	-25.3	9.5
1981	4.5	-27.9	14.3
1982	-8.7	-36.4	.3
1983	-46.3	-67.1	-36.8
1984	-107.0	-112.5	-94.8
1985	-116.4	-122.2	-101.1
1986	-141.4	-144.3	-125.7
1987	-160.7	-159.2	-147.2

*Source: U.S. Department of Commerce, Bureau of Economic Analysis "Survey of Current Business".

1/ "Current Account" refers to goods, services, and transfer payments.

2/ "Merchandise" refers to products, whether agriculture or manufactured.

3/ "All Goods and Services" refers to merchandise and services, including travel expenditures, transportation, fees, and return on assets abroad.

SENATOR GLENN'S
QUESTIONS FOR THE RECORD
Mr. James F. Collins

1.

Mr. Santucci testified that the auto industry does not have a uniform perspective on the FTA. Similarly, it was obvious from Commissioner Brown's testimony that energy producers will have a different view of the FTA than energy consumers. Would you please tell us about the different perspectives within the steel industry on the FTA?

2.

Ambassador Holmer and Professor Wonnacott both testified that the energy provisions of the FTA will have a favorable impact on consumers. Will these provisions also benefit the steel industry?

3.

Under the FTA's government procurement provision, U.S. suppliers will be able to compete freely in the Canadian government procurement market without being subject to "Buy Canadian" restrictions. How does the steel industry view this change in policy?

4.

Do you have any specific suggestions for the FTA's implementing language?

NATIONAL STEEL PRODUCERS ASSOCIATION
1055 Thomas Jefferson Street, N.W., Washington, D.C. 20007
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James F. Collins
President

Response to Question I

The FTA has some beneficial aspects for the steel industry. The tariff levels of the two countries are unequal in steel, with the Canadian level at least 100% higher on steel imports than the U.S. level.

The FTA will phase out steel tariffs. However, the preponderance of steel trade is to the benefit of Canada rather than the U.S. Accordingly, U.S. producers would like to see the unequal steel tariffs phased out immediately rather than over a decade, which time frame will provide advantages to the Canadian steel industry for 10 years.

Those elements of the U.S. steel industry which are strong exporters to Canada, however, are generally in support of the FTA, which will lower Canadian tariffs. In addition, the phase-out of the "Buy-Canada" provision will also benefit those U.S. steel exporters.

Response to Question II

Northern U.S. tier steel producers urge the expanded importation of Canadian energy at competitive prices, in order to alleviate the negative impact of high U.S. energy costs on domestic steel production. The elimination in the FTA of the Canadian requirement that power exports must be priced above the avoided costs of U.S. purchasers, ultimately will work to the benefit of U.S. steel producers.

For the longer term, U.S. steel producers urge the further commercial development of Canadian hydro power which has provided Canadian steel producers with power rates at levels one half that of U.S. producers.

Response to Question III

The "Buy Canada" procurement provisions of the Canadian Government are similar to the most restrictive, protectionist practices of developing countries. Their abolishments is long over-due. A scenario under which Canada obtains financing from U.S. sources for an oil pipe line, and then utilizes "Buy Canada" provisions to prevent the sale of U.S. made steel pipe for the pipe line, is no longer acceptable.

Accordingly, the U.S. steel industry views favorably the FTA's elimination of the "Buy Canada" provisions.

Response to Question IV

We have no proposed changes in the FTA implementing language. However, we do urge the Congress to request the establishment of bilateral currency consultations unit outside of the FTA, to monitor the monetary relationships of the two countries, in order to prevent any future distortions in exchange rates, similar to those which have occurred in the 1980s.

WRITTEN STATEMENT OF
THE AMERICAN GAS ASSOCIATION
BEFORE THE
COMMITTEE ON GOVERNMENTAL AFFAIRS
OF THE UNITED STATES SENATE
ON THE
CANADA - U.S. FREE TRADE AGREEMENT
May 9, 1988

STATEMENT OF INTEREST

The American Gas Association (A.G.A.). is a national trade association with some 250 natural gas distribution and transmission company members. These companies serve 84.3% of the gas utility customers in the U.S. and have a long standing interest in natural gas supply security.

In this regard, A.G.A. joined with the Canadian Gas Association to form a Joint Task Force on Long-Term U.S.-Canadian Natural Gas Trade. This Task Force began meeting in the autumn of 1986, to develop some common policies on long-term natural gas trade, which they could recommend to the people and the governments of their two countries. In September 1987, the Task Force published its report, Long-Term U.S/Canadian Natural Gas Trade, which specifically endorsed a bilateral treaty dealing with natural gas trade between our two countries. The Task Force report said:

> Representatives of the natural gas industry on both sides of the border recognize their own primary responsibilities for the development of gas supplies and for the working out of financial and operational arrangements for production and delivery of gas. They recognize also that their efforts will be ineffective without the support of governments in both countries, as expressed formally in a bilateral energy trade treaty.

> Such a treaty could be negotiated separately or could be embodied in a broader Canada-U.S. trade treaty, such as proposed in the current free trade negotiations between the two countries. The important thing is that an agreement on natural gas trade should be concluded as quickly as possible -- ideally within the next 12 months.[1/]

Therefore, A.G.A. choose to support the Canada - U.S. Free Trade Agreement only after a long and careful consideration of the energy trade between Canada and the United States. We firmly believe that the energy sections of the Free Trade Agreement will benefit consumers, producers, industry and electrical customers, as well as natural gas distributors and pipelines in both countries.

STATEMENT OF POSITION

The American Gas Association supports the Canada - U.S. Free Trade Agreement. North America is rich in natural gas resources that can provide long-term, secure energy service to citizens in both the U.S. and Canada. Before the citizens of one country can rely on the energy resources of another, however, there must be assurances that trade will not be hampered or disrupted by retroactive regulation and/or legislation on the part of either government. The Free Trade Agreement includes these assurances.

Managers of industrial plants, electric utilities, and other large energy-intensive facilities need assurances that

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[1/] American Gas Association/Canadian Gas Association Joint Task Force, Long-Term U.S.-Canadian Natural Gas Trade, emphasis supplied, p. 4 (September 1987).

the dollars they invest in gas-fired equipment today won't turn into a bad investment in the future. The "supply insurance" that the Free Trade Agreement includes will help these investors turn to natural gas. Their fuel choice, in turn, has implications for other U.S. policies:

FIRST, increasing U.S. natural gas use and our gas trade with Canada will reduce U.S. dependence on oil from the politically unstable Middle East. Natural gas could replace 350,000 barrels of imported oil per day immediately and 720,000 barrels per day within one year. Over five years, gas could displace 1.7 million barrels per day.

SECOND, aside from the national security benefits of oil displacement, increased gas use would improve our balance of trade. Oil at the border is 50 percent more expensive than natural gas. If gas displaced oil at the rates set-out above, the U.S. would reduce its trade deficit by more than $200 million per month immediately, and up to $1 billion per month within five years.

THIRD, additional and secure energy supplies from Canada will mean lower energy prices over time for individual users and businesses. These benefits can translate into U.S. products that are more competitive in world markets. This is particularly true for highly efficient gas-fueled industrial cogenerators and combined cycle power plants.

FOURTH, because it is such a clean-burning fossil fuel, using natural gas has definite environmental benefits.

Natural gas not only emits fewer pollutants than other fossil fuels, it also lowers the costs of environmental compliance for U.S. industry. In addition, using natural gas as a primary vehicular fuel or as a fuel additive is being seriously considered as one way to solve serious ozone and carbon monoxide problems in several major U.S. cities.

Despite the many benefits of increasing across-the-border natural gas trade, some natural gas producers (both U.S. and Canadian) fear the Free Trade Agreement. Both groups point to "subsidies" supposedly enjoyed by their competitors. Although A.G.A. is studying the subsidy questions, it does not appear that Canadian government programs will have a significant effect in the U.S. market. For example, the Canadian Exploration Development Incentive Program is a temporary incentive program for small producers, very limited in nature, that expires on December 31, 1989. We also note that the way to "balance" Canadian incentives, _if_ any do remain, is to provide equal incentives to U.S. producers. In any event, disincentives such as the Windfall Profit Tax should be repealed as soon as possible, as agreed to by House and Senate in the Omnibus Trade Bill.

In 1987, only about five percent of the gas used in the U.S. was imported from Canada. A.G.A. expects this percentage to increase but only gradually, not exceeding 10 percent even by the year 2010. The real effects of the Free Trade Agreement will be to increase customer confidence in natural gas resources; to stimulate natural gas demand (with many national security, economic, and environmental benefits); and to facilitate the development of Canadian and Alaskan gas projects for future supplies.

THE FTA HAS DEFINITE NATIONAL SECURITY BENEFITS

The Free Trade Agreement greatly benefits U.S. national security. First, it protects natural gas imports from sudden disruptions or politically motivated price increases. Second, it allows the U.S. to rely on some Canadian gas to displace less secure oil imports from the unstable Middle East.

On the first point, the FTA protects U.S./Canadian energy imports from the threat of sudden cut-offs. More specifically, Article 904 requires that if Canada restricts natural gas imports to the U.S., it has to similarly restrict its domestic gas consumption. Naturally, the U.S. is similarly bound. Although Article 904 does not apply "in times of war or other emergency in international relations"[2] it provides substantial supply security, in contrast to Middle East oil suppliers who have in the past attempted to influence U.S. policy by threatening to cut-off oil supplies in order to gain their political ends.

On the second point, the U.S. has a clear policy of displacing imported oil with natural gas. For example, the

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[2] Canada-United States Free Trade Agreement, Article 2003 (December 9, 1987).

U.S. Department of Energy's report to the President, Energy Security, stressed the importance of substituting natural gas for imported oil.[3/] The conclusions in this report were also echoed by the National Defense Council Foundation (NDCF), which published an issue alert, Will the Future Be Reflected In the Past? -- The DOE Energy Security Report One Year Later.[4/] NDCF makes strong national security arguments that the U.S. should reduce its reliance on imported oil, in part, by displacing Middle East oil with North American natural gas.

A.G.A. has estimated that nationwide, natural gas could displace 350,000 barrels of oil a day immediately.[5/] After that, we estimate that gas could displace 720,000 barrels a day within one year, and 1,700,000 barrels a day within five years. The following is a concrete example of how natural gas can displace oil in just one section of the U.S. -- the Northeastern states.

[3/] United States Department of Energy, Energy Security Report to the President, DOE/5-0057 (March 1987).

[4/] National Defense Council Foundation, Will the Future Be Reflected in the Past? -- The DOE Energy Security Report One Year Later, Washington, D.C. (March 1988).

[5/] American Gas Association, The Strategic Role of Natural Gas In Replacing Imported Oil, Arlington, Va. (May 22, 1987).

OIL DISPLACEMENT EXAMPLE:

> **In 1986, electric utilities in the Northeast used 380 thousand barrels/day of oil -- roughly 56 percent of all the U.S. oil consumed by U.S. electric power plants and seven percent of total U.S. net oil imports. If these plants were converted to natural gas, they would require an additional 814 billion cubic feet (Bcf) of gas per year to be delivered to the Northeast. Because the present infrastructure needs to be expanded dramatically to serve this load, the U.S. Federal Energy Regulatory Commission is even now considering some 31 different projects to serve the Northeast. It is significant that these projects would draw their gas from both domestic and Canadian sources.**

Increased natural gas use surely has overriding national policy benefits. In 1987, imported oil made up about 40 percent of the nation's oil consumption. To the extent that U.S. consumers can switch to natural gas (whether from our own production or from a secure trading partner like Canada) we enhance our national security, improve our economic health/balance of payments, and even create a cleaner environment for ourselves (discussed below).

ENHANCING U.S. GAS SUPPLY SECURITY

North American natural gas supplies are both secure and abundant. Because oil resources are being depleted at a much quicker rate than natural gas, the hydrocarbon resource base is becoming increasingly gas prone. The Potential Gas Committee has estimated that, with currently foreseeable technology and economics, there are 620 trillion cubic feet (Tcf) of potential conventional resources in the lower-48 states alone, with an additional 118.8 Tcf of gas resources in Alaska. When 159 Tcf of proved reserves are added to this number, the lower-48 states has the equivalent of about 50 years of conventional supply at 1986 production levels.[6/] Canada has proved reserves of 97 Tcf and a total of 426 Tcf of potential and proved reserves.[7/] The combined resources of the U.S. and Canada -- an extraordinary 256 Tcf of proved reserves and 1357 Tcf of proved and potential reserves -- are more than adequate to supply traditional and new markets, especially high-efficiency energy technologies that can lower the cost of U.S. goods and services.

THE ECONOMIC BENEFITS OF THE FREE TRADE AGREEMENT

Providing additional, reliable supplies of natural gas from Canada can also lower the cost of natural gas to U.S. energy users -- both individuals and businesses. These lower costs can aid in making U.S. products more competitive in world markets (by lowering energy costs over time), using natural gas has other balance-of-trade benefits. Imported

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6/ A.G.A. Gas Supply Committee, The Gas Energy Supply Outlook Through 2010, Arlington, Va. (October 1985).

7/ Procter, R.M; Taylor, J.C. Wade, J.A.; Oil and Natural Gas Resources of Canada - 1983, Geological Survey of Canada, Paper 83-31; Department of Energy Mines, and Resources, 1984.

oil is 50 percent more expensive than natural gas at the border. Oil displacement of the magnitudes discussed earlier, would reduce the U.S. trade deficit by more than $200 million per month immediately, and up to $1 billion per month within five years. These trade benefits should not be overlooked.

THE ENVIRONMENTAL BENEFITS OF INCREASING NATURAL GAS USAGE

Natural gas is an environmentally attractive fuel, whose use can reduce ozone and carbon monoxide pollution. Compared to other fossil fuels, natural gas emits far fewer pollutants, including carbon monoxide, nitrogen oxide, sulfur dioxide, and hydrocarbons, as well as ash, sludge, and solid waste. These pollutants can be reduced quickly since many existing emitters already have gas service and can convert easily. Using natural gas often has lower capital and operating costs too, so that the cost of reducing air pollution can be lower. Naturally, these lower compliance costs translate into financial savings for U.S. industries that are facing stiff foreign competition, at the same time that environmental deadlines, such as the nonattainment provisions of the Clean Air Act, would otherwise increase an industry's pollution control costs.

We could give numerous examples of ways to use natural gas to reduce pollutants.

1. A combined cycle gas power plant uses a gas-fueled turbine, a steam turbine and a heat recovery steam generator to generate electricity. Such units emit

less than 0.3 percent of the sulfur dioxide and 57 percent of the nitrogen dioxide of comparable coal fired units, nor do they produce ash or sludge. They can be built quickly (in one to two years vs. eight to fifteen for coal or nuclear units) and are extremely cost effective. The relatively low capital cost of combined cycle units is approximately $500 per kilowatt, about 1/3 the cost of new coal units.

2. Gas-fired cogeneration systems that generate electricity and steam to run industrial processes have similar environmental, energy and cost efficiencies.

3. "Select use" of natural gas allows a plant operator to get immediate emission reductions by using natural gas with coal, in the same or even in different units. The operator's pollution control costs can be much less than installing a "scrubber" or other conventional pollution control device.

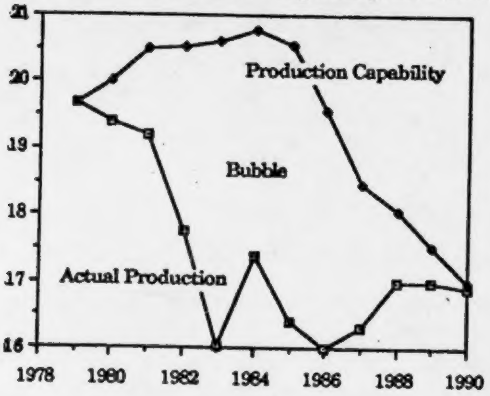
4. Besides reducing oil imports, using natural gas as a primary vehicular fuel, or as a fuel additive can reduce carbon monoxide emissions by as much as 99 percent, nitrogen oxides by 65 percent, and reactive hydrocarbons by 85 percent. Reductions of this magnitude could be the key to clean air in cities where air pollution has been an intractable problem up to now.

Before regulators and plant operators commit themselves to these options, however, they need to be assured that there will be adequate natural gas supplies in the future. Although the U.S. resources base is large enough to sustain this growth, the Free Trade Agreement provides an important extra level of supply security.

BENEFITS FOR DOMESTIC GAS PRODUCTION

Some U.S. producers perceive Canadian gas imports as a competitive threat, which could disadvantage them. For several reasons, however, they have little to fear and much to gain from the Agreement.

Figure 1
Production and Production Capability: 1979-1990



First, they have little to fear because the Free Trade Agreement will have no effect on current gas trade between the U.S. and Canada or on current drilling in the U.S. The U.S. presently has a surplus of natural gas and it is the existence of these excess inventories -- not Canadian gas -- that has depressed the rate of gas exploration and production in the U.S. Excess U.S. natural gas deliverability (generally known as the gas "bubble") was 2.2. Tcf in 1987.[8/] In calendar year 1988, however, A.G.A. projects that the bubble will shrink to 1.1 Tcf and that it will be essentially zero by 1990 (full year estimate). Please see Figure 1.

Two factors are causing the bubble to shrink: (1) reduced drilling (the result of low energy prices and the gas "bubble"); and (2) increased gas demand (the result of lower gas prices and increased market share). By 1989, the "bubble" will have shrunk enough to spur drilling in the U.S. Thus, U.S. drilling will pick-up despite continued Canadian imports and, in fact, A.G.A. has even factored in a gradual increase in Canadian imports to one Tcf per year in 1988 and 1.5 Tcf by 1990. Yet, our analyses still show that excess supplies are gone after 1990, creating market-driven incentives for new drilling in the U.S.

8/ American Gas Association, Natural Gas Production Capability - 1987-1990, Arlington, Va. (January 4, 1988).

Second, allegations have been made on both sides of the border that producers in the other nation have an advantage in competing for gas sales in U.S. markets. The focal point of these complaints by U.S. producers are programs such as the newly established Canadian Exploration Incentive Program (CEIP). This program provides a federal cash grant of 30 percent of exploration and development expenditures up to a corporate limit of $10 million of eligible expenses/year. Because the benefit itself is taxable income, the typical benefit is small. For example, under the expiring Canadian Exploration Development Incentive Program (CEDIP), which is very similar except for a slightly higher grant level of 33%, the Canadian government estimates that a major drilling company would typically receive well below $3 million. Indeed, only about $300 million was granted under the CEDIP program in 1987 and some industry estimators believe that this overstates the amounts paid out.

Other factors which may favor one producer over another are taxes, both federal and local, and royalty holidays. Comparison of these programs in Canada and the U.S. is extremely difficult. A.G.A. has undertaken such a comparison, which includes extensive producer review. We plan to have the results available by the end of May.

Lastly, A.G.A. firmly believes that establishing a North American natural gas trade will rebuild customer confidence and allow gas to serve promising new markets for gas-fired cogeneration and combined cycle power plants. The price induced shortages of the late 1970s and the volatility of all energy prices since then, including gas prices, has eroded consumers' confidence in the U.S. gas resource base. The fear that natural gas was a "scarce" resource, embodied for example by the prohibitions on gas usage in the Fuel Use Act, continued even into the 1980s. It was not until last year that Congress finally repealed the Fuel Use Act and customers could buy gas for new industrial facilities and power plants without administrative impediments.

Although this legacy will be hard to overcome, one way to rebuild consumer confidence is to point to the enormous gas resource base of both the U.S. and Canada -- a combined 256 Tcf of proved reserves and 940 Tcf of potential and proved resources. Once the FTA is in place, with its assurances that Canadian supplies will not be withdrawn from the marketplace (except under the most extraordinary circumstances) and that prices will be market based, consumers will be able to make investment decisions based on total North American resources. While U.S. resources are large, the combination of U.S. and Canadian resources provides an extraordinary degree of supply security and with it price stability. These are the kind of assurances that investors in new gas-fired industrial and power plant projects need before making large capital commitments. Time and again, gas marketers have told us that it is difficult, if not impossible, to penetrate the market for new gas-fired cogeneration and combined cycle power plants unless the customer believes that gas resources are plentiful and that supplies will not suddenly be withdrawn from their markets for political reasons.

Increased consumer confidence can translate directly into an overall increase in demand for both U.S. and Canadian producers. In no way will U.S. producers lose out to Canadian producers under the Free Trade Agreement. Rather, both countries will benefit from increased confidence in supply security, and both countries' producers will share in increased demand for natural gas. Of this market, we expect the lion's share to go to U.S. producers, predicting that domestic production would serve 90% of a 21.7 Tcf market by the year 2010.[9/] Thus, while the Free Trade Agreement will have little effect on current gas trade, its real effect will be to build investor confidence and new gas markets in the future.

THE EFFECT OF U.S. NATURAL GAS REGULATIONS ON "FAIR" TRADE

There are also allegations that in order to have "fair" natural gas trade with Canada, a litany of discrete orders and opinions at the U.S. Federal Energy Regulatory Commission (which governs pipeline ratemaking) and the Economic Regulatory Administration (which authorizes energy imports and exports) have to be, variously, adopted into law

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9/ American Gas Association, TERA-Analysis 88-1, Arlington, Va. (January 15, 1988), at Table 3, p. iv.

in the case of FERC Opinion No. 256, eliminated in the case of FERC Order No. 500, or revised in the case of normal ratemaking procedures. We do not think that a treaty is the place to enact an entire regulatory agenda. Further, the alleged "unfairness" is either unrelated to the Free Trade Agreement and/or totally unsubstantiated.

For example, there are complaints that FERC Order No. 500 gives Canadian gas a marketing advantage over U.S. gas. Not so -- Order No. 500 requires all producers, both U.S. and Canadian, to offer take-or-pay credits when they avail themselves of open access transportation on a U.S. pipeline. Thus, producers in both countries are treated the same.

U.S. producers have opposed Order No. 500 crediting since its inception, and have in fact opposed any take-or-pay relief from FERC at all, but that has nothing to do with Canadian gas, fair trade, or the Free Trade Agreement. It has to do with proper U.S. rate and regulatory policies that stem from a lawful decision of our federal courts. Although U.S. producers may attack Order No. 500, it is important to keep in mind that:

> As a matter of U.S. law, this program is a direct result of a decision by the U.S. Court of Appeals, which required the Commission to address the take-or-pay contract issue, A.G.D. v. FERC, 824 F.2d 981 (D.C. Cir. 1987); and
>
> As a matter of policy, Order No. 500 actually helps make the pipeline neutral about whether to transport Canadian or U.S. gas. Before Order No. 500, pipelines incurred substantial take-or-pay liability by transporting domestic gas because most U.S. producers have not renegotiated their take-or-pay contracts. In contrast, they did not necessarily incur similar

> liabilities by transporting Canadian gas because Canadian producers have already renegotiated their take-or-pay contracts.

This imbalance was somewhat redressed by Order No. 500. Because transportation automatically earns take-or-pay credits under Order No. 500, any disincentive to transport U.S. gas compared to Canadian gas is gone. Thus, allegations that Order No. 500 discriminates unfairly against U.S. producers could not be more wrong.

As a second example, U.S. producers have also complained about FERC Opinion No. 256, even though it was a clear "win" for them. This specific case involves complicated ratemaking issues about how production and transportation costs for gas purchased in Canada and resold by a pipeline in the U.S. should be billed to the U.S. customers. FERC allocated more of those costs to the Canadian gas, making it relatively more expensive on the ground that it did not want to discriminate against U.S. producers. Now, having won this particular case, some U.S. producers want to enact a particular rate design into law in conjunction the Free Trade Agreement.

They would also like legislation requiring ERA to put the same ratemaking conditions in FERC Opinion No. 256 in ERA's import authorizations. This would mean that a single federal case would affect rate designs for local distribution companies that buy Canadian gas directly. This is clearly going too far -- raising questions of federalism and the preemption of state regulatory authorities.

Finally, some producers want to use the FTA as an excuse to overturn other specific ERA and FERC decisions. These include an attempt to reverse ERA's decision that FERC regulates interstate transportation and that ERA should not try to put conditions on FERC Order No. 436. There are also complaints about ratemaking on the Northern Border Pipeline, a transporter of Canadian gas, even though many other pipelines (that transport only U.S. offshore gas) have similar financing arrangements and rate designs.

It seems clear that having failed to win before FERC, ERA, and/or the U.S. Courts, the complainants are using the Free Trade Agreement to achieve a failed regulatory agenda. The FTA is a treaty between two sovereign nations. It has outstanding national security, balance of energy-trade, and environmental benefits. Regulatory policy, however, raises separate and discrete issues that are inapplicable to such a trade agreement. Issues of state and federal ratemaking have traditionally been delegated to special regulatory bodies precisely because they are typically not amenable to legislation, and certainly not amenable to international treaty negotiations.

THE AMERICAN INSTITUTE OF ARCHITECTS

Ted P. Pappas, FAIA
President

May 18, 1988

The Honorable John Glenn
U.S. Senate
503 Hart Senate Office Building
Washington, DC 20510-3501

Dear Senator Glenn:

As President of the American Institute of Architects, I would like to request that the enclosed statement be submitted for the record of your committee's hearing on May 9, 1988, on the US - Canada Free Trade Agreement. I appreciate your consideration of our request.

Sincerely,

Ted P. Pappas, FAIA
President

THE AMERICAN INSTITUTE OF ARCHITECTS

STATEMENT ON THE U.S. CANADA FREE TRADE AGREEMENT

by

The American Institute of Architects

to the

Committee on Governmental Affairs

of the

U.S. Senate

May 19,1988

1735 NEW YORK AVENUE, N.W. • WASHINGTON, D.C. 20006 • (202) 626-7300 • CABLE ADDRESS: AMINARCH • TELEX: 710822 1112

The American Institute of Architect appreciates the opportunity to provide the following statement concerning the U.S.- Canada Free Trade Agreement (FTA) in connection with the hearing held on this subject on May 9, 1988 by the U.S. Senate Committee on Governmental Affairs. With 53,000 members the AIA is the professional association representing this nation's architects. This year we are celebrating our 131st anniversary.

The AIA urges approval of the FTA because of the important advances it provides in trade relations on architectural services between the United States and Canada. These advances cover three specific areas of concern, 1) Canadian tariffs on architectural drawings, 2) immigration regulations in both countries which restrict the exchange of services, and 3) Canadian and U.S. licensing and registration procedures.

Until recently, it has been exceedingly difficult for American architects to pursue their profession in Canada. At the same time, Canadian architects have encountered barriers to their practice in the United States, although these barriers are not nearly so difficult to surmount as those erected by Canada. In order to reduce the barriers on both sides of the border, the AIA and its Canadian counterpart, the Royal Architectural Institute of Canada (RAIC), have been working for some time to find ways to remove these obstacles. Meanwhile, the trade negotiators for each country have pursued means of easing trade restrictions on architectural services, and the product of their negotiations is contained in the recently concluded FTA. The agreement's treatment of the three areas of greatest concern to the AIA is spelled out below:

HIGH TARIFFS

The most formidable roadblock that U.S. architects have encountered in their attempts to gain access to Canadian markets has been the Canadian tariff on architectural drawings. Based on agreements worked out by the AIA and the RAIC, the Canadian government has taken steps to reduce the tariff, while the agreement would actually eliminate it.

Previously, the Canadian customs code had several alternative methods of valuation, but the preferred method had been to use the actual transaction value for imported merchandise. This resulted in an extraordinary tax. If Canadian customs determined that a "bona fide sale" of architectural drawings had occurred, they would assess the value of the drawing based upon the value of the construction project and the architectural fee. For example, applying a 10.2% rate of duty and 12% sales tax to drawings valued at $2.5 million--a 5% architectural fee on a $50 million construction project--would result in a $267,500 duty and a $335,100 sales tax, for a total tariff of $602,600.

In 1986, following agreements worked out by the AIA and RAIC, Canadian customs adopted a different method of valuation, the "processed physical medium method," where it determined that no bona fide sale of drawings had occurred. Under the processed physical medium method, the duty is based upon the value of the paper on which the drawings have been drafted plus the value of transcribing the drawings onto the paper. This method results in significantly lower duty. Revenue Canada Customs and Excise has ruled that the processed physical medium method applies "where there is no outright sale and the [drawings] are acquired free of charge or by a consideration being paid for the right to use the information."

Zealous enforcement of the tariff has also been a deterrent to the practice of architecture in Canada by U.S. architects. In several instances, architects trying to cross the border to Canada have been detained by Canadian customs for carrying architectural drawings in their cars. On at least one occasion, the architect was interrogated by Customs officer and forced to show and explain the drawings. The officer was finally satisfied when the architect could prove that the building the drawing was describing was not related to his business in Canada, and would not be suitable for the Canadian climate. Other instances have occurred where architects have had their documents confiscated at the border and held up to two weeks, if they did not fill out the proper forms in advance. Finally, an architect from New York was called up by a Royal Canadian Mounted Policeman who had flown to New York to demand search of his office.

The AIA looks very favorably on the agreement's tariff section. Its removal of tariffs on architectural drawings would eliminate abuses and would put American architects in the same favorable position as their Canadian counterparts. It would make it possible for American architects to compete and accept design projects in Canada to a much greater degree than previously.

IMMIGRATION REGULATIONS

U.S. architects have also encountered difficulties at the border because of an internal Canadian immigration procedure which has prohibited foreigners from entering Canada to perform consulting work. U.S. law has no comparable prohibition. Since U.S. architects were often confined to a consulting role on Canadian projects, due to the restrictive provincial licensing/registration requirements, they were particularly vulnerable to these procedures. Both Canadian and U.S. architects have reported occasional difficulty crossing the border if they let customs representatives know that they were entering the other country to do architectural work. This was apparently due to both Canadian and U.S. immigration law, which impose the same general restriction on foreign nationals engaging in employment in the host country. There is no procedure for architects to obtain advance ruling as to whether they will be admitted and what work they will be permitted to do. Canadian professionals have claimed that they have had greater difficulty crossing the border than U.S. professionals because of long administrative delays in granting work permits.

The AIA appreciates the intent of the agreement to correct this situation. Under the agreement, qualified business persons (the definition of which includes architects), will be able to enter either country temporarily through means of a simple and fast procedure at the border. Both countries will benefit from such simpler procedures for temporary entry, while maintaining necessary protection in other instances. The AIA strongly supports the language in the signed agreement in this respect.

LICENSING/REGISTRATION

The last area where the AIA has had concern involves the licensing/registration requirements in the two countries. Requirements laid down by each Canadian province can easily prevent U.S. architects from performing all phases of design work in Canada. Quebec requires architects to be proficient in French, to reside in Quebec, and to be a Canadian citizen for five years in order to be licensed. Ontario and the four western provinces require architects to reside in their respective provinces in order to be the principal architect on a project.

The same complications do not exist for Canadian architects wanting to perform design work in the U.S. State licensing/registration requirements have not generally prevented Canadian architects from performing any phases of design work, even if some restrictions have applied.

Certainly, reciprocal and non-restrictive provincial licensing/registration requirements would benefit U.S. and Canadian architects alike. However, achieving this goal will not be easy due to resistance by the provinces. The FTA looks to the AIA and the RAIC to work cooperatively on this issue and to report to their respective governments by December 31, 1989. The AIA finds it encouraging that the FTA negotiators have recognized the importance of involving architects in the process of finding solutions to the question of reciprocity. The AIA is already working closely with our Canadian counterpart in the effort to reach an agreement that would maintain the high standards of practice and professional conduct in the practice of architecture in their respective countries without imposing burdensome, unnecessary requirements that do not advance this goal.

The United States and Canada have a long tradition of friendship and mutual respect. For too long, however, the barriers to free and reciprocal exchange of architectural services have contradicted this tradition. Congressional approval of the FTA's approach to architectural services will significantly benefit American architects and can only strengthen the relationship that we enjoy and need with our northern neighbor.

National Governors' Association

John H. Sununu
Governor of New Hampshire
Chairman

Raymond C. Scheppach
Executive Director

May 23, 1988

The Honorable John H. Glenn
Chairman
Committee on Governmental Affairs
United States Senate
340 Dirksen Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

Scheduling conflicts made it impossible for the National Governors' Association to participate in the Committee's May 9 hearing on the Free Trade Agreement (FTA) with Canada. The FTA is of major concern to the Governors, and we would like to have two statements included in the record of your hearing:

- one from Governor Gardner speaking on behalf of the National Governors' Association and
- one from Governor Kunin speaking as Governor of Vermont.

Governor Kunin has offered to answer any questions the Committee may have; NGA staff is also available to respond to questions arising from Governor Gardner's testimony.

Thank you for including the two enclosed statements in the record of your May 9 hearings.

Sincerely,

Raymond C. Scheppach

Enclosures

HALL OF THE STATES · 444 North Capitol Street · Washington, D.C. 20001-1572 · (202) 624-5300

National Governors' Association

John H. Sununu
Governor of New Hampshire
Chairman

Raymond C. Scheppach
Executive Director

STATEMENT OF

THE HONORABLE BOOTH GARDNER

GOVERNOR OF WASHINGTON

submitted for the record of the

COMMITTEE ON GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

ON

THE U.S. - CANADIAN FREE TRADE AGREEMENT

May 9, 1988

HALL OF THE STATES · 444 North Capitol Street · Washington, D.C. 20001-1572 · (202) 624-5300

Mr. Chairman, my name is Booth Gardner. I am Governor of the State of Washington, and I serve as chairman of the Committee on International Trade and Foreign Relations of the National Governors' Association and as a member of NGA's U.S. - Canadian Task Force. I am pleased to submit this statement on behalf of the association on the Free Trade Agreement between the United States and Canada.

Some observers may ask, "Why has the United States government placed such a strong emphasis on trade with Canada? Why at this time?" I think the answers to these questions are compelling.

Why Canada? Our neighbor to the north is the United States' largest trading partner and fastest growing export market. Bilateral trade in goods and services exceeded $166 billion in 1987. Direct investment exceeded $70 billion. Fully 25 percent of U.S. merchandise exports go to Canada. Our exports there are more than double those to Japan and are equal to our exports to the entire European community. Why Canada? The numbers show we have a tremendous stake in that market.

Why now? I believe the U.S. - Canada Free Trade Agreement is an early step toward a new and stronger U.S. trade policy. The United States is entering a new era in trade. Gone is the notion that our market is chiefly at home, supplemented when convenient for us by sales abroad. Our economy -- and so many of the vital aspects of our society that rely on its strength, such as our foreign policy -- are dependent on our successful adjustment to this new reality. Why now? Because our future depends on it.

Congress has demonstrated its appreciation for the importance of the global economy through its work on trade issues over the past three years. We all know that we have a great deal more work to do to develop a comprehensive trade policy for the United States. But I think it is appropriate that we begin with our number one trading partner, and that we begin now.

The State Perspective

At the state level, we also have been active on the international trade front. Governors are always looking for ways to preserve and create jobs. Beginning about twenty years ago we began pursuing export opportunities overseas. Today, all states have international trade programs; these include such activities as seminars for new-to-export companies, market research, trade shows, and one-on-one assistance. Forty states and territories are represented in commercial centers overseas. Forty-three Governors traveled abroad last year in pursuit of trade and investment opportunities.

From our day-to-day work, we know that it is not by accident that the United States is the world's foremost international trader. The ingenuity and the energy of our workers are powerful export engines, and the size and richness of our market are magnets for the world's goods.

But we are also aware of the forces that have helped us slip from our place as the world's number one exporter. We explored these last year in our competitiveness project. We made a number of suggestions in the areas of increasing the productivity of our workforce, improving the efficiency of our workplaces, increasing the responsiveness of our communities, and enhancing the federal agenda to ensure that we participate even more effectively in the global economy.

In the introduction of NGA'S report on competitiveness, Governor Bill Clinton said, "America won't work if Americans can't work, or learn, or believe in the promise of tomorrow." I think it was in the spirit of this comment that the Governors voted to support the Free Trade Agreement. We did it because we believe in the promise of tomorrow.

The Free Trade Agreement is oriented to the future. It provides for greater cooperation between our country and our number one and fastest growing export market. By reducing tariff barriers, it provides for freer competition between our two countries. By defining future areas of work, it points the way to additional progress. It acts as a road map for multilateral talks now underway, especially in the important areas of financial services and investment.

Background on NGA Policy

The National Governors' Association adopted policy supporting implementation of the U.S. - Canadian Free Trade Agreement at our 1988 winter meeting. The policy reflected three years of work by NGA, beginning with the 1985 annual meeting when eight Canadian Premiers joined us for a discussion of trade between the United States and Canada. Since that time, our U.S. - Canadian Task Force, now chaired by Governor Tommy Thompson of Wisconsin, has met regularly with U.S. Trade Representative Clayton Yeutter and his staff to discuss the FTA. Twenty-three Governors are members of the task force; I have provided a copy of the list for the record of these hearings.

The 1987 NGA annual meeting included a second session with the Canadian Premiers. Discussions with these leaders are now a regular feature of Governors' schedules: the New England Governors meet annually with their Eastern Canadian colleagues, and individual Governors communicate frequently with their neighbors across the border.

NGA Policy

A copy of the NGA policy position is attached to my testimony for the record. The key points it makes are as follows:

- The nation's Governors support implementation of the agreement.

- NGA support is contingent upon the actions of the governments of the United States and Canada being consistent with the spirit of the agreement in the period between January 2, when the agreement was signed by the leaders of the two countries, and the effective date of the agreement.

- Efforts should be made to resolve issues not fully addressed during the negotiations. Remaining inconsistencies with the General Agreement on Tariffs and Trade should be vigorously pursued. In addition, the administration should enter into additional negotiations to address subsidy practices.

- Consultation on the agreement remains a priority for the Governors, and we praised the administration for keeping us informed throughout the negotiations. We pledged ourselves to consult with the administration and Congress regarding the impact of the implementing legislation on state economies and to work toward minimizing any adverse effects of the agreement. We also said we would cooperate with Congress and the administration to ameliorate problems not fully addressed by the agreement.

The debate on the NGA policy was lively. While ultimately the policy position was overwhelmingly approved, concern was expressed on many individual sectoral issues. Some key reservations are as follows:

- Textiles -- NGA support for the agreement is based on the understanding that both sides would exercise restraint during the period between January 2, when the agreement was signed, and the date of actual implementation. Therefore, we are most concerned by the action taken by the Canadian government to provide tariff relief for its textile and apparel industries.

- Territories -- Another of our primary reservations arises from the fact that the U.S. Territories of American Samoa and Guam, the U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands are not covered by the agreement. Although the U.S. trade representative undertook a thorough and commendable consultation process with the states, this issue was not raised. We feel that the special concerns of the off-shore Governors must be addressed immediately. Exclusion of the territories must not be the rule for U.S. trade agreements. We support the administration's recent efforts to consult with the off-shore Governors about their special concerns and urge that these consultations be continued on an expedited basis.

- Subsidies -- I know that Canadian subsidies have been a major concern of many senators. The Governors share your concern. NGA policy supports the additional negotiations on subsidies called for in the trade agreement. However, state economic development initiatives, as well as federal support programs, could be dramatically affected by strict discipline on subsidies. As strongly as we feel about a level playing field, I believe that the provision for further negotiations in this area is the best approach. We are committed to working with you and the U.S. negotiators who will pursue the subsidy issue -- if the agreement is implemented -- to ensure a positive outcome for our economy.

- Preemption -- I urge the members of this committee to work with us to ensure that the implementing legislation does not include a blanket preemption of state laws. There is a better way to guarantee the proper balance between the federal interest in assuring adherence to an international agreement and the state interest in assuring that special local conditions (such as the timing of legislative sessions) are taken into account. We suggest that the implementing legislation assign lead responsibility within the federal government for working with states to achieve conformity of state laws and practices with the new trade agreement. This should be accomplished in a flexible but timely manner. We recognize the precedence that international agreements generally take over state laws, but believe the approach we have outlined should be adopted as a matter of federalism principle and as a way to achieve a smooth transition.

- Issues Not Fully Addressed -- We recognize that the agreement is not perfect and did not solve all the world's problems. It could not be expected to, but even where the agreement is not the last word, it serves to stimulate debate on important issues. For example, during our consideration of the agreement, some Governors expressed concern about the effect it would have on our nation's long-term energy security. We urge that further analysis be made in this area to identify domestic measures that might be taken to enhance our nation's energy security and avoid undue reliance on energy imports.

Washington Perspective

In my state, exports and imports represent a major component of our economy. We believe that trade enhancements should be pursued vigorously. Trade with Canada in particular is of interest since that area represents the second greatest trade volume for Washington State. In terms of dollars, we are talking about more than $3 billion worth of commodities and services traded between Canada and Washington.

Equally important as trade are relationships between two friendly neighbors. I am pleased to report that Premier Vander Zalm and I recently met. We have agreed that the Province of British Columbia and the State of Washington will work cooperatively to address issues of mutual interest, such as economic development. We will also explore areas for joint efforts, such as tourism promotion, commodities marketing, and resource management.

Conclusion

Mr. Chairman, we hope Congress will approve the legislation necessary to implement the Free Trade Agreement.

We believe our country will be far better off with the agreement than without it.

Our relations with Canada, our number one trading partner, will be stronger. And the groundwork will be laid for further progress in important areas and for resolving the disputes that are inevitably part of any trading relationship.

Consumers on both sides of the border will benefit from having a broader range of choices and more competitive prices.

Our economies will be stronger because of the growth that is projected and because our companies will make adjustments to the world market.

The U.S. policy process will be strengthened by the consultation that has occurred between the branches of the federal government and between the federal government and the states. This experience will serve us well as we work together to develop a consistent and strong U.S. trade position.

The U.S. as a whole will gain from the tariff elimination, because the Canadian tariffs are higher than ours (an average of 8.8 percent for Canada versus 3.2 percent for the United States).

The nation's Governors' view is that the Free Trade Agreement will be good for our country and for our future. We look forward to working with you on this historic opportunity.

National Governors' Association

John H. Sununu
Governor of New Hampshire
Chairman

Raymond C. Scheppach
Executive Director

H-7. U.S. - CANADIAN TRADE

The Governors support implementation of the Free Trade Agreement negotiated by the federal governments of the United States and Canada. Our support is contingent upon Canada and the U.S. doing nothing in the interim to violate the spirit of the explicit understanding affirmed in writing on January 2, 1988 to "exercise their discretion in the period prior to entry into force of the accord so as not to jeopardize the approval process or undermine the spirit and benefits of the Free Trade Agreement."

The agreement, while not fully addressing all issues relating to our bilateral trade, is expected to contribute to real growth in the economies of both signatories. It represents a positive step toward the open, competitive world trading system that we have endorsed. It provides for more timely and effective resolution of disputes between the two largest trading partners in the world.

Throughout the negotiations, the Office of the U.S. Trade Representative has sought our advice and made it a priority to keep us informed on progress. As the related legislation is developed and debated, we will continue to consult with the administration and Congress regarding its impact on state economies.

Emphasizing the importance of U.S. - Canadian relations, we will continue our meetings with the Canadian Premiers on issues of mutual interest, including options for greater trade cooperation between our two countries.

We believe that efforts should continue to be made to resolve those issues not fully addressed during the negotiations and that remaining inconsistencies with the General Agreement on Tariffs and Trade (GATT) rules should be vigorously pursued. We will work with Congress and the administration and within our states to minimize any adverse effects of the agreement.

The Governors have significant concerns about issues created or not fully resolved by the agreement and ask to be consulted as the implementing legislation or other measures are developed to ameliorate these problems.

The administration should enter into additional negotiations to address inequities regarding subsidies. Fair and open trade for all businesses requires resolution of the reality or perception of unequal treatment of certain industries due to differing national policies on subsidies.

Adopted February 1988.

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MADELEINE M. KUNIN
GOVERNOR

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TESTIMONY IN SUPPORT OF U.S.-CANADA FREE TRADE AGREEMENT:

I would like to testify in support of the Free Trade Agreement by telling you what the agreement means to the state of Vermont.

First, a brief historical perspective: In the early days of our nation, when we were thirteen small colonies, we had to decide how best to build a strong economy. Our decision was to band together in an economic, political, and social compact. The colonies decided to take the bold step of removing all commercial restraints among them. There would be no tariffs or barriers to trade between the states. More importantly, future states admitted to the union would be treated equally. It was this free flow of commerce that helped promote the economic advancement of the United States of America.

It took the Europeans 200 years to imitate us: only recently have they taken steps to open up their own markets to each other's trade. The European Economic Community is doing today what we accomplished 200 years ago. And their results are astounding. In the first 10 years of open trade within the European Community, trade amongst its members rose by nearly 350%!

It is a lesson that we have all learned: Free and open trade benefits all of us.

The prospect of adding a market of over 20 million people to the area where we can freely trade cannot help but benefit businesses and consumers in the United States and in Vermont, expanding sales and creating new jobs and new opportunities.

With only half a million people, Vermont is the smallest state that borders Canada. But we have a big stake in free trade with Canada. Over 300 Vermont firms export products to Canada. These products range from snow-making equipment for ski areas to electron microscope supplies, from maple sugaring equipment and hockey sticks to machine tools and computers. Vermont producers annually ship over $190 million worth of these and other products to Canada.

Implementation of the Free Trade Agreement will encourage Vermont firms to increase their sales to Canadian consumers. Canada is not just our neighbor; it is closer to us than most American markets. Boston is four hours from Burlington by car; Montreal, with nearly two million people, is less than 2 hours. It is only natural that many Vermont firms look to Canada, and especially Montreal, as a large, relatively untapped market. Removal of the remaining restrictions on trade will go a long way toward helping Vermont-based firms realize the potential of that market.

Vermont is also home to a significant number of Canadian-owned firms which have nearly $100 million invested in our state. We appreciate the confidence Canadians have in the Vermont economy and welcome the jobs and tax revenue that this investment generates for our state. However, current visa restrictions make it difficult for Canadian managers and other personnel to oversee the operations of their Vermont operations. We are pleased to see that the Agreement specifically addresses this important issue and relaxes or eliminates most of these restraints. We hope that this will encourage even more Canadian investment in Vermont.

Let me turn to imports from Canada. It is common today, with our large trade deficit, to think of imports as detrimental to our economy. We have learned, however, that Vermont imports of Canadian energy, especially electricity, greatly benefit the people and industry of Vermont. We have signed long term purchase agreements with Canadian electricity suppliers, resulting in a stable source of electricity that will help meet Vermont's needs well into the twenty-first century. Buying Canadian hydroelectricity is cheaper than building new power plants in Vermont; it is also cleaner than burning fossil fuel. The Free Trade Agreement will enhance the likelihood of more long term agreements by reducing the risk of Canadian export quotas or other barriers.

As hosts to one-half million Canadian tourists annually, we know the value of having good neighbors. Having good neighbors that we can freely trade with benefits us economically as well as personally. The Free Trade Agreement provides us with a unique opportunity to improve on our existing relationships with our Canadian friends and neighbors. Although we happen to be geographically close to Canada, even states far from the border will see new markets open as a result of this Agreement. I and the people of Vermont hope you will seize this opportunity and strongly endorse the Free Trade Agreement.

New England Energy

Glenn R. Schleede
President

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May 20, 1988

The Honorable John Glenn
Chairman
Committee on Governmental Affairs
U.S. Senate
Washington, D. C. 20515

Dear Mr. Chairman:

This letter is to request that the attached statement concerning the U.S. - Canada Free Trade Agreement be made a part of the printed record of your hearings on the Free Trade Agreement.

The statement deals primarily with the matter of energy trade between the U.S. and Canada.

During the past few weeks, we have learned that a great deal of the opposition to imported energy -- particularly electricity -- is based on incorrect information or on an incomplete understanding of the contribution to the strength of the U.S. economy made by such imports.

I hope that the attached statement will contribute to a better understanding.

Sincerely,

Glenn R Schleede

Enclosure

THE U.S.-CANADIAN FREE TRADE AGREEMENT AND ELECTRICITY IMPORTED FROM CANADA ARE IN THE NATIONAL INTEREST

- Coal industry concerns about electricity imports are based in part on incorrect information relating to Canadian imports -

A statement for
The Committee on Governmental Affairs
U. S. Senate

by

Glenn R. Schleede*

May 20, 1988

Washington, D. C.

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* President, New England Energy Incorporated and Vice President, New England Electric System, 25 Research Drive, Westborough, MA 01582.

THE U.S.-CANADIAN FREE TRADE AGREEMENT AND ELECTRICITY IMPORTED FROM CANADA ARE IN THE NATIONAL INTEREST

- Coal industry concerns about electricity imports are based in part on incorrect information relating to Canadian imports -

A statement for the Committee on Governmental Affairs,
U.S. Senate
May 20, 1988

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A statement for the Committee on Governmental Affairs,
U.S. Senate
May 20, 1988

Mr. Chairman and Members of the Committee:

My name is Glenn Schleede. I work for the New England Electric System (NEES) which serves customers in nearly 1.2 million homes, businesses and institutions in Massachusetts, Rhode Island and New Hampshire.

I want to start by thanking you for the opportunity to present to the Committee information that will make two basic points:

. The U.S.-Canadian Free Trade agreement and electricity imports are in the U.S. national and public interest; and

. Concerns expressed by some representatives of the coal industry about electricity from Canada are based in significant part on incorrect information relating to those imports.

More specifically, I will explain:

1. The important role that coal already plays in supplying the energy used by NEES Companies in generating electricity.

2. The importance of diversifying the sources of energy used to generate electricity in New England, which has reduced and will continue to reduce dependence on foreign oil.

3. The role of imported electricity is displacing foreign oil -- NOT coal -- in New England.

4. The advantages to the New England region and the nation of the U.S.-Canadian Free Trade Agreement, particularly as it affects electricity and coal.

5. The disadvantages to U.S. residential and business consumers -- and the overall economy -- of protectionist measures which would interfere with low cost imported energy.

In addition, I will provide facts about the role -- or, more correctly, the lack of a role -- in pricing of imported electricity from Canada that is played by:

. Government subsidies to Canadian electricity producers; and

. Differing approaches in the U.S. and Canada to the reduction of sulfur dioxide emissions from powerplants and industrial facilities.

Electricity from Canada can compete successfully with U.S. sources of electricity because Canada has extensive hydro power capability and can supply a very reliable, secure source of energy.

DETAILS

With that brief introduction, let me turn to the detailed information that supports the above summary points.

A. COAL PLAYS AN IMPORTANT ROLE IN SUPPLYING THE ENERGY USED BY NEW ENGLAND ELECTRIC SYSTEM (NEES) COMPANIES IN GENERATING ELECTRICITY.

Recognizing your interest in coal, I want to start by making clear that coal now plays an important role in supplying the energy used by the New England Electric System (NEES) Companies in generating electricity.

1. Six generating units have been converted from oil to coal, with coal now supplying 45% of the energy we use to generate electricity.

   Back in 1979, foreign oil supplied 78% of the energy used by NEES Companies in generating electricity. Starting in 1974, an aggressive program was undertaken to obtain permission to convert 6 generating units from oil to coal. Conversion involved a lengthy process to obtain approvals by appropriate Federal, State and local government agencies and an expenditure of about $300 million.

   The conversion program was completed in 1982 and has been an economic and environmental success. We now use about 3.3 million tons of coal each year and avoid the importation of about 12 million barrels of oil. During 1988, coal will supply about 45% of the energy we use to generate electricity.

2. A unique coal-fired, self-unloading collier carries coal to our generating stations.

   A NEES subsidiary is the majority owner of a unique coal-fired self-unloading collier that carries coal -- originating principally in West Virginia, Virginia and Pennsylvania -- from East Coast ports to our generating plants in New England. This ship, launched in 1983, makes a round trip each 4.5 days on average, completing about 80 voyages per year. Thus far, it has carried more than 12 million tons of coal.

3. Contracts have been signed with cogenerators that plan to use coal in fluidized bed boilers to generate electricity and steam.

   The New England region has experienced rapid increases in the demand for electricity and needs additional sources of supply. NEES Companies have been active in considering all alternatives for assuring an adequate and reliable supply of electricity at lowest cost for our customers. This includes new sources of supply and load management and conservation programs to hold down electricity demand.

Potential sources of supply include independent power producers and cogenerators. NEES Companies now obtain electricity from such sources equivalent to about 250 megawatts of capacity and we have under contract sources equivalent to an additional 420 megawatts of capacity.

Among the cogeneration facilities under contract are two planned cogeneration facilities that will use coal in fluidized bed units. In total, these two facilities would provide the New England region with 254 megawatts of generating capacity.

B. THE NEW ENGLAND REGION IS DIVERSIFYING ITS ENERGY SOURCES FOR ELECTRICITY AND HELPING TO REDUCE NATIONAL DEPENDENCE ON FOREIGN OIL.

The oil supply interruptions and rapid price increases of the 1970's demonstrated to many, including the electric utilities in the New England region, that excessive reliance on any one energy source was not the best way of providing a reliable and adequate supply of electricity at lowest possible cost. Accordingly, actions have been taken to diversify energy sources.

1. Oil supplied 72% of the energy to produce electricity for the New England region in 1972, but is expected to supply only 17% by 1993.

The electric utilities making up the New England Power Pool (NEPOOL) have made great progress in diversifying the energy sources for the electricity needed for the New England region. Attachments 1 and 2 to this statement and the table below shows this progress.

NEPOOL ENERGY MIX - PERCENT BY SOURCE

				Estimated*	
Energy Source	1972	1979	1987	1993	2000
Hydro	7%	6%	5%	4%	4%
Hydro-Quebec	-	-	4%	10%	5%
Nuclear	13%	32%	28%	36%	31%
Coal	4%	3%	16%	16%	14%
Alternates**	-	-	-	6%	5%
Natural Gas	-	-	5%	7%	14%
Oil	72%	53%	32%	17%	26%
Purchases	3%	6%	10%	3%	1%
Total	100%	100%	100%	100%	100%
Gigawatt Hrs.	70,113	83,839	105,137	110,392	129,456

* Based on contracts in place plus planned alternate energy and natural gas projects.

** Alternates for 1972, 1979 and 1987 are included in other categories.

As you can see from the above table, dependence on oil has been reduced substantially since 1972, with increased reliance principally on coal, nuclear energy and imports from Hydro-Quebec.

2. Diversifying energy supply sources has proven to be sensible policy in New England and elsewhere.

   The progress made in the New England Region and elsewhere throughout the world has demonstrated that reliance on imported oil can be reduced and that diversification of energy sources reduces the potential impact of interruption of any one source.

   In short, experience has demonstrated that diversification of energy supply sources is a sensible policy.

C. IMPORTED ELECTRICITY IN NEW ENGLAND DISPLACES OIL -- NOT COAL.

Concerns have been expressed by some people in the coal industry that electricity from Canada may be displacing coal. That concern is not supported by the facts in New England and appears not to be a serious problem in other areas of the U.S.

1. Lowest cost electric generation is brought into service ahead of higher cost sources.

   First, it is important to recognize that 95 electric utilities operating in the New England region have organized themselves into the New England Power Pool (NEPOOL). Among its responsibilites, NEPOOL controls the dispatching of all electricity, regardless of who owns the generating capacity or has signed the contract for purchase of power from outside New England.

   The governing principal in the dispatching of this electricity is that the lowest cost source of supply is dispatched first. Savings achieved by this system of "economic dispatch" are then shared among the participating utilities.

2. NEPOOL entered into agreements with Hydro-Quebec for substantial amounts of imported electricity at low cost.

   In 1983, Hydro-Quebec and New England utility officials reached agreement on the first phase of an arrangement under which the neighboring power systems agreed to build transmission facilities that would enable NEPOOL to import 33 billion killowatt-hours of electrical energy from Hydro-Quebec over an 11-year period beginning in 1986. Phase I transmission facilities with capacity to transmit 690 megawatts of power went into service in 1986.

   In 1985, the parties reached agreement on Phase II which provided for the construction of an expanded transmission interconnection with a total transfer capacity of 2000 megawatts. Purchases from Hydro-Quebec increase the energy diversity of New England's bulk power supplies and are expected to meet nearly 10% of NEPOOL's electrical requirements in 1991.

3. Under the NEPOOL economic dispatch system, electricity from Hydro-Quebec backs out oil-fired generation.

Electricity from Hydro Quebec takes its place among the potential sources of electricity available for dispatch. The price for most of the electricity available under NEPOOL's contract with Hydro-Quebec is based upon a percentage of the average cost of generating electricity with fossil fuels (oil, coal and natural gas) in New England.

Except for a short period of time during 1986, coal has been the lowest cost source of fossil-fueled generation, natural gas obtained on an interruptible basis, the next lowest and oil the highest.

Under the pricing arrangement for electricity from Hydro Quebec, that electricity is almost always cheaper than oil, and has displaced the highest cost fossil-fueled source which, except for the short period during 1986, has been oil -- NOT coal.

Attachment #3 to this statement illustrates NEPOOL's Load Duration Curve & Fuel Mix of Generation. This graph shows the mix of generation sources according to variable cost -- with domestic hydro being lowest, followed by nuclear, coal, imports from Hydro-Quebec, oil and, finally, peaking units (pumped storage and internal combustion generating units).

As you can see from this graph, it is oil and peaking units that are displaced by electricity from Hydro-Quebec. Coal-fired generation is not displaced as long as it remains less expensive than oil-fired generation.

D. CANADA IS AN IMPORTANT SOURCE OF LOW COST ENERGY THAT BENEFITS U.S. CONSUMERS AND THE U.S. ECONOMY, AND PROVIDES AN IMPORTANT MARKET FOR U.S. PRODUCTS, INCLUDING COAL.

Extensive and detailed information, which I shall not attempt to repeat, has already been made available to the Congress by the Executive Branch on the important benefits of energy trade between the U.S. and Canada. However, I will summarize five key points that appear important to your deliberations:

1. Canada is now the largest purchaser of U.S. coal.

First, during 1987, Canada imported nearly 16 million tons of coal from U.S. producers -- the largest amount imported by any one country -- at a price of about $650 million.

2. Canada is the largest foreign supplier of electricity, oil, natural gas and uranium.

Second, Canada is the largest supplier to the U.S. of:

- Low cost electricity produced by hydro-electric plants and by nuclear and coal-fired plants
- Natural gas
- Oil
- Uranium

3. Canada offers the most secure source of imported energy available to the U.S.

Third, great concern is expressed in national energy policy debates over the potential for excessive reliance by the U.S. on foreign energy sources. Often participants in those debates conveniently overlook the substantial differences among the various sources of imported energy.

In fact, there are wide differences in the relative security of the various forms and sources of energy. It is intellectually dishonest to lump together, for example, oil from the Persian Gulf and oil, natural gas or electricity from Canada. The sources of the Nation's imported energy differ widely in terms of:

- Distances,
- Ease of diverting supplies to another buyer,
- Transportation modes,
- Policies of the exporting country,
- Relationships between the importing and exporting countries, and
- Implications of capital investments, particularly in transportation (e.g., transmission lines and pipelines),

Hydro-Quebec, for example, is making a large investment -- approximately $1 billion -- in transmission facilities to bring electricity to New England. That investment will be a wise one only if those lines are used over a long period of time. Thus, there is a strong mutual interest in the continued flow of electricity.

4. Exchanges of electricity among neighboring utilities provides important efficiency gains, helping to hold down cost.

Fourth, the interconnection of utility systems offers important efficiency gains, particularly when the systems have peak loads that occur at different times.

All electric systems must have extra capacity to help assure that electricity will be available in times of peak demand or when generating units or transmission lines are not available, for example, for planned maintenance or unexpected outages.

When neighboring systems are interconnected, they can share electricity, making it unnecessary for each system to have capacity to cover all contingencies. Such interconnections are an important way of avoiding unnecessary capital investments and thus help hold down the cost of electricity for consumers.

The advantages are particularly important when neighboring systems or power pools have different peak demand periods, which is often the case with neighboring systems in the U.S. and Canada. Canadian systems tend to experience their periods of highest demand during the winter. U.S. systems are more likely to experience peak demand during the summer.

5. Energy trade with Canada is an important source of revenue to permit Canadians to buy U.S. products.

As illustrated above, Canada is an important source of secure, low cost energy and contributes to efficiencies which help hold down costs to U.S. consumers.

I should also note that the revenue flowing to Canada helps make it possible for Canada to be the largest single market for the export of U.S. goods and services, thus contributing to a stronger economy and more jobs in the U.S.

E. THE U.S.-CANADA FREE TRADE AGREEMENT (FTA) HELPS ASSURE THAT CANADA WILL BE A SECURE SOURCE OF LOW COST ENERGY FOR THE U.S. AND A GOOD MARKET FOR U.S. PRODUCTS.

Executive Branch officials have also made available to the Congress extensive information -- which I will not attempt to duplicate -- on the advantages of the U.S.-Canada Free Trade Agreement in assuring that Canada will continue to be a secure source of low cost energy for the U.S. and a good market for U.S. products.

Instead, I will merely mention several of the provisions pointed out by Department of Energy Officials that have special importance in New England. These particularly important features of the Agreement are:

- Eliminate government-imposed discriminatory pricing in energy trade, assuring that consumers in both countries are treated equitably;
- Prohibit restrictions on imports and exports, including quantitative limitations, import and export taxes and minimum export prices;
- Limit the circumstances under which one country may reduce import from or exports to the other, which will help assure continuing energy supplies to consumers; and

F. PROTECTIONIST MEASURES APPLIED TO ENERGY IMPORTS WOULD HARM U.S. ECONOMIC INTERESTS.

During the past 3 years, the Congress has held a number of important hearings on potential protectionist measures that might be applied to certain sources of imported energy. I recognize that coal producers and miners, in particular, are frustrated when alternative sources of energy are available at lower cost. They are concerned with the loss of potential markets and jobs and would like protection against lower cost competitors.

The desire of domestic coal producers to limit competition is understandable. However, I believe it is also important that your Committee take into account:

- The obligation that electric utilities have to their customers, and
- That protectionist measures limiting access to low cost sources of energy would be detrimental to U.S. consumers and the U.S. economy.

1. Electric utilities have an obligation to provide an adequate and reliable supply of electricity at lowest possible cost.

   As you know, electric utilities have an obligation to provide an adequate and reliable supply of electricity at the lowest possible cost. This is a special problem in the Northeast where electricity costs tend to run higher than the national average.

   As pointed out earlier, NEES has converted 6 generating units to coal to diversify energy sources and provide electricity at lower cost than is possible with the use of oil.

   We have also participated in NEPOOL arrangements to obtain electricity from Canada. Clearly, we would not be interested in importing electricity into New England if it were not a low cost source of supply.

2. Low cost electricity helps hold down consumers' energy costs, leaving them more money to spend on other goods and services.

   Our actions to hold down electricity costs are providing important economic benefits within and outside the New England region. When we are able to hold down electricity costs, individual consumers have more money remaining that can be used to purchase other goods and services produced within New England and elsewhere, thus contributing to a stronger national economy and more jobs.

3. Low cost energy supplies help U.S. business hold down the cost of their products and services and compete in world markets.

   As electric utilities hold down electricity costs, business and industrial customers are able to translate the savings into lower prices. Lower prices benefit their customers throughout the U.S. and make it easier for our business and industrial customers to compete in world markets.

4. A DOE Study demonstrates that limiting electricity imports from Canada would drive up consumer costs and increase U.S. dependence on imported oil.

   A recent analysis by the Department of Energy's Energy Information Administration (EIA) serves to highlight the advantages of imported electricity from Canada. The EIA study analyzed the effects of the elimination of electricity imports from Canada. In brief, that analysis showed that elimination of electricity imports would:

- Increase U.S. coal consumption by about 1 million tons (2 million tons by the year 2000).
- Reduce exports of U.S. coal to Canada by 4 to 5 million tons.
- Increase oil imported into New England by more than 65%.
- Sharply increase electricity prices in New England.

Other studies show similar results.

5. Protectionist measures merely delay the time when actions must be taken to meet competition and make eventual adjustments more difficult.

U.S. coal producers and miners have done an excellent job, particularly during the past six years, in improving productivity and bringing down coal prices. Undoubtedly, these actions have helped keep U.S. coal competitive in many markets. Still, the challenge to maintain or improve competitiveness remains and more actions -- particularly in bringing down high transportation rates -- will be necessary.

While protectionist measures are often tempting, experience in the U.S. has often demonstrated that such measures drive up costs for U.S. consumers, selectively harm other sectors of the economy, and merely delay the time when adjustments are made because of the need to become more competitive. Furthermore, once adjustments become inevitable, experience has demonstrated that they are often more painful to individuals, organizations and regions than they would have been if adjustments had been made earlier to improve productivity and bring down costs and prices.

G. OPPONENTS OF ELECTRICITY IMPORTS FROM CANADA HAVE INCORRECTLY DESCRIBED THE ROLE OF SUBSIDIES IN PRICING ~~EL~~ECTRICITY FROM CANADA.

During the past year, certain opponents of imported electricity from Canada have attracted considerable attention. Those opponents have incorrectly described the role of subsidies in pricing electricity from Canada. Four points concerning the role of subsidies are particularly important:

1. First, electricity sold by most Canadian power producers is market priced, not cost based.

The assertions by opponents of imported electricity from Canada have ignored the fact that electricity sold by most Canadian power producers to U.S. utilities is market-priced rather than cost-based.

The fact that this point is overlooked is understandable since most electricity sold within the U.S. is regulated and the price charged is based upon the cost of providing that electricity, commonly referred to as "cost of service" regulation.

Most Canadian electricity sales to U.S. utilities are market-priced. Prices for Canadian electricity are negotiated on an "arms length" basis between the Canadian utility and the U.S. utility purchaser. Those negotiations typically take into account the alternative sources of electricity available to the buyer.

2. Second, Canada's National Energy Board rules require that the export price be at least high enough to recover costs, including explicit and implicit subsidies.

Electricity exports to the U.S. must be approved by Canada's National Energy Board (NEB). The NEB has had three criteria that must be met before an export permit was granted:

a. The export price must recover the appropriate share of costs incurred in Canada. In a June 1987 decision, the NEB made clear that the export price must include all costs borne by Canada, including environmental, land use and economic costs associated with the imports. The NEB's June 1987 decision also made clear that the export price must include both implicit and explicit subsidies.

b. Canadian exporters must demonstrate that the price they are charging will not be less than the price they give Canadians for equivalent services in related areas. The NEB has insisted that electricity be offerred to neighboring Canadian provinces before an export license is approved.

c. Exporters were required to demonstrate that the price they were charging would not be less than the least cost alternative in the purchasing utility's franchise area.

This third test is eliminated by the terms of the U.S-Canada Free Trade Agreement, thus helping to assure that the imported electricity will be priced at market rates.

3. Third, subsidies provided to Canadian electric utilities are much like those provided to some energy producers in the U.S.

The third point that is often overlooked is that governments in the U.S. provide certain subsidies to some energy producers, including producers of electricity, that are much like those provided to Canadian producers of electricity.

a. Subsidies in Canada.

In Canada, subsidies include:

- Canadian electricity producers are generally provincially owned crown corporations and thus excluded from paying either Federal or provincial corporate income or sales taxes.

- Long-term debt of Canadian provincial utilities may be guaranteed by provincial governments, thus resulting in lower interest rates.

- Less responsibility to pay a return on equity investments from provincial governments.

In addition, some subsidies may be involved in the form of:

- Government appropriations.
- Government provided accident insurance for nuclear facilities.
- Water royalties at less than true economic cost.
- Relatively high debt to equity ratios, made practicable by the government backed debt.

b. Subsidies in the U.S. Similar subsidies are certainly not unknown in the U.S. Some electric utilities in the U.S. -- principally Co-ops and publicly owned utilities (e.g., municipals, state power authorities, TVA) -- enjoy such subsidies as:

- Freedom from Federal, state and/or local taxes.
- Subsidized loans, with rates well below market levels.
- Loan guarantees, resulting in below market rates.
- Preferential access to low-cost power from hydro-electric projects constructed with Federal tax dollars.
- Forgiveness of prepayment penalties for loans (granted by the U.S. Congress in late 1987, at a cost to the U.S. Treasury estimated to be in the billions).
- Access to financial markets through the Federal Financing Bank, and resulting in below market interest rates.
- Access to tax-free industrial development bonds.
- Low cost or no cost access to water.

Electric utilities and other energy producers subject to Federal corporate taxes have, until the Tax Reform Act of 1986, enjoyed tax benefits in the form of investment tax credits. Rapid amortization of investments for tax purposes are still available though the amortization period was lengthed by the 1986 Tax Act.

In addition, the coal industry has benefitted somewhat from such subsidies as:

- Federally funded research, development and demonstration, and
- Forgiveness of substantial interest charges on funds borrowed from the U.S. Treasury by the Black Lung Trust Fund.

The U.S.-Canada Free Trade Agreement does not at this time eliminate subsidies on either side of the border.

H. CANADIAN ENVIRONMENTAL REQUIREMENTS ARE DIFFERENT FROM, BUT NOT NECESSARILY LESS STRINGENT THAN, U.S. REQUIREMENTS.

Another argument made by opponents of electricity imported from Canada is that Canada has less stringent environmental requirements than the U.S., thus giving Canadian electricity an unfair cost advantage.

The facts about environmental requirements certainly deserve attention. In summary, as explained below, Canadian environmental requirements are different from, but not necessarily less stringent than, U. S. requirements.

1. Sulfur dioxide requirements. The principal focus of opponents to imported electricity appears to be on sulfur dioxide, since Canadian citizens and the Canadian government have been very critical of such emissions from U.S. powerplants and have claimed that they contribute substantially to "acid rain" falling in Canada.

   A comparison of the sulfur dioxide situation in the U.S. and Canada reveals the following:

   a. Provincial governments have the primary authority to set ambient air quality standards and impose emisssion controls to achieve them. The Canadian federal government has more limited authority than the U.S. federal government.

   b. By mid-1987, five provinces (Ontario, Quebec, New Brunswick, Alberta and Saskatchewan) had adopted enforceable ambient sulfur dioxide (and nitrogen oxides) standards that are different from, but not necessarily less stringent than, U.S. ambient standards.

   c. The Canadian federal government has negotiated an acid rain control program with the seven Eastern Canada provinces which are the principal sources of sulfur emissions (Ontario, Quebec, Manitoba, New Brunswick, Nova Scotia, Newfoundland and Prince Edward Island) which would reduce sulfur emissions by 35% from 1980 actual emission levels by 1994; i.e., from a total of 3.8 million tons to 2.5 million tons.

   d. The province of Ontario which was the largest contributor of sulfur dioxide emissions in 1980 (1,773 thousand tons) has agreed to reduce emissions by 60% (to 885 thousand tons) by 1994.

      I understand that Ontario Hydro -- which is a significant user of U.S. coal -- has recently committed to spend over $3 billion to install scrubbers on three of its largest coal-fired generating plants.

   e. The province of Quebec which was the second largest contributor of sulfur dioxide emissions in 1980 (1,098 thousand tons) has agreed to reduce emissions by 45% (to 600 thousand tons) by 1994.

f. The agreed upon provincial emission limits are in terms of total tonnage reductions, allowing provinces to come up with the most cost effective way of achieving that target.

2. Environmental implications of Canadian hydro-electric facilities are thoroughly reviewed.

In Canada, jurisdiction over environmental impact of hydro generation is vested in Provincial governments. Quebec, Manitoba and British Columbia each have differing procedures for the review of new generating projects.

According to information published by the National Energy Board, all three require environmental impact assessments. In Quebec, the provincial cabinet has final authority to approve a project. The Ministry of Environment provides an Environmental Impact Statement at least 45 days prior to the Cabinet decision. During that time, any citizen may request a public hearing on the project, the results of which are considered by the Cabinet in its decision. In Northern Quebec, approval of projects is based on agreements negotiated with Indian and Inuit groups, represented by the Federal Department of Indian and Northern Affairs.

Furthermore, electricity cannot be exported from Canada without an export license from the National Energy Board (NEB). The NEB's formal review procedure includes public hearings and an opportunity for intervention by all interested parties. NEB must find that the price is "just and reasonable" in order to grant an export license. The NEB broadly interprets this criterion to require that all costs are to be recovered. The NEB's review includes environmental and social impacts, and other aspects of full social costs.

3. A fair assessment of Canadian environmental requirements is warranted.

Those who criticize Canadian environmental requirements should keep two important points in mind:

a. Environmental requirements in Canada are different from requirements imposed in the U.S. However, Canada differs substantially from the U.S. in terms of industrial structure, geography, division of powers among levels of government and many other ways. It is unfair to pick out one part of U.S. environmental regulation in isolation and seek an identical requirement in the Canadian system to determine relative stringency of the requirements.

b. Looking for a Canadian counterpart for the U.S. New Source Performance Standards (NSPS) -- which, in effect, require installation of scrubbers -- is unrealistic.

B. Tariff Reductions

The tariff eliminations covering chemicals (Article 401) reflects the advice of the industry. In OCITA's view, these provisions are completely acceptable, assuming that non-tariff barrier obligations under the FTA are met. The tariff staging provisions for chemicals provide for balanced reductions of U.S. and Canadian tariffs on chemical products to allow for adjustments that will be necessary.

We are particularly pleased with Article 401.5, which provides for consultations leading to the acceleration of tariff eliminations. The article does not of itself establish a procedure by which acceleration agreements will be reached. OCITA urges that the implementing legislation stipulate that the private sector must be involved in consultations for accelerated tariff elimination. We believe that neither the U.S. government nor Canadian government should unilaterally initiate the accelerator provisions of the FTA without some initiative from the private sector. OCITA believes it is essential that the potentially-affected industries be consulted prior to negotiations by the U.S. government. Moreover, controversial or disputed accelerations should not, as a matter of policy, be the subject of negotiations in this area.

C. Rules of Origin

OCITA believes that the rules of origin (Articles 301-304) applicable to chemical products will substantially reduce the opportunities for third-country imports to receive preferential treatment in the context of U.S.-Canada. In addition to a requirement for combined U.S.-Canada raw material and manufacturing costs of at least 50 percent, the FTA also provides specific rules for certain chemical products in Annex 301.2, Sections VI and VII. These sector-specific rules establish an excellent working foundation for the negotiation of similar, multilateral rules of origin in the Uruguay Round on the General Agreement of Tariffs and Trade.

D. Investment Provisions

OCITA is generally pleased with the investment provisions of the FTA (Articles 1601-1611). In particular, the elimination of performance requirements and the prohibition on the adoption of more stringent investment-related requirements than those in effect on October 4, 1987 are favorable improvements. On balance, the investment provisions of the FTA should reduce barriers to investments, encourage increased capital flows and help create new jobs in both the United States and Canada.

OCITA is concerned, however, with the review provisions of the FTA. The Agreement establishes a higher threshold review level for investments in Canada of C$150 million, but still a level certain to include many potential chemical-related acquisitions which may be undertaken in the future. It does not eliminate all review procedures and restrictions, nor does it change the existing restrictions on oil operations in Canada with respect to future investments. Additionally, OCITA believes that further clarification of the "grandfather" provisions for inconsistent, existing legislation, as well as more complete definitions of direct and indirect investments, are required. For example, it is unclear at what point a firm will be considered to be foreign-controlled for the purpose of investment reviews.

E. Safeguards

Aside from consultations permitted under Article 1804, the FTA provides no remedy for temporary trade distortions caused by currency fluctuations. In OCITA's view, exchange rate fluctuations strongly influence trade flows, and remedies in addition to consultation are warranted. Consultation on exchange rates may not be enough in the short term. Remedies such as a special surcharge or other temporary adjusting remedies should be considered.

In addition, OCITA is concerned that the modification of the existing U.S. safeguard statute (Section 201 of the Trade Act of 1974) may seriously restrict the ability of U.S. industries injured by the duty-free entry of Canadian goods to obtain the full relief currently provided in Section 201 of the Trade Act of 1974. FTA Articles 1101 and 1102 would apply more stringent standards for import restrictions

It must be kept in mind that adoption of a scrubber requirement in the U.S. was in part designed to protect markets for high sulfur coal. In many cases, scrubbers are not the most cost effective means of achieving emission reductions or ambient air quality standards. It appears that the Canadians have adopted a more cost effective approach.

I. ELECTRICITY FROM CANADA CAN COMPETE SUCCESSFULLY WITH ELECTRICITY PRODUCED IN THE U.S. BECAUSE CANADA HAS SUBSTANTIAL CAPABILITY TO PRODUCE LOW-COST ELECTRICITY, PARTICULARLY FROM HYDRO SOURCES.

The underlying factor that is often ignored by opponents of imported electricity from Canada is that Canada has substantial capability to produce low cost electricity because of an important natural resource in the form of massive hydro power.

This natural resource can be turned into hydro-electricity and transmitted to the U.S. at lower cost than electricity can be produced from fossil fuels in large parts of the U.S.

Canadian electricity is a highly reliable and secure source of energy that can be used to displace insecure sources of imported energy, principally imported oil.

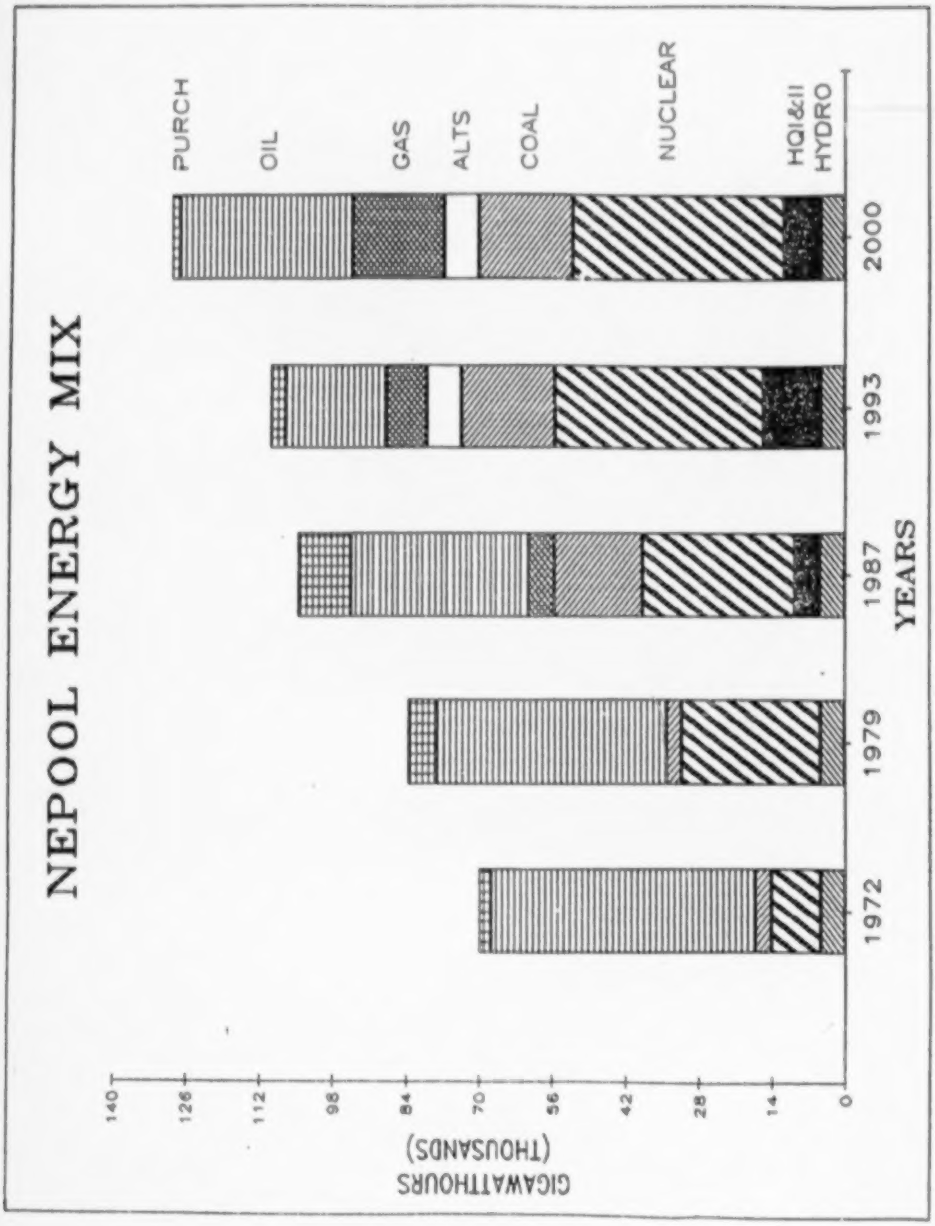
J. CONCLUDING COMMENTS.

In brief summary:

- Imported energy from Canada provides secure, low cost energy sources that make an important contribution to the economic strength and energy security of the U.S.
- Canada provides an important market for U.S. products and services, including a market for some 16 million tons of coal.
- The U.S.-Canada Free Trade Agreement provides added assurances of free and fair trade, benefitting the citizens of both countries.

ATTACHMENT #1

-15-



ATTACHMENT #2

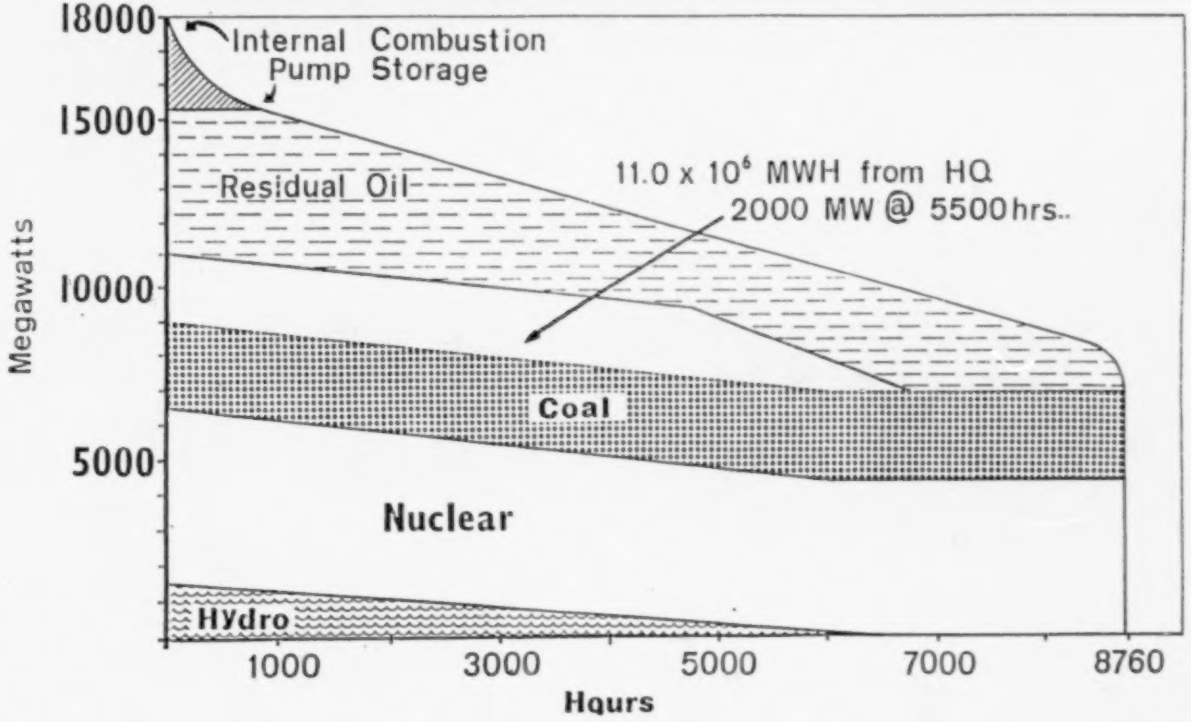
NEW ENGLAND POWER POOL (NEPOOL) ENERGY MIX
- In Gigawatt Hours -

	Actual			Projected	
Energy source	1972	1979	1987	1993	2000
Hydro	4,802	4,748	4,940	4,716	4,702
Hydro Quebec	0	0	4,773	11,000	7,000
Nuclear	9,383	26,732	29,321	40,133	40,585
Coal	3,053	2,804	15,868	17,794	18,048
Alternates	(a)	(a)	(a)	6,735	6,734
Natural Gas	0	0	4,988	7,815	17,665
Oil	5,0651	44,208	34,062	19,216	33,026
Purchases	2,224	5,347	10,185	2,983	1,696
Total(b)	70,113	83,389	105,137	110,392	129,456

(a) Alternates is included under other categories in the 1972, 1979 and 1987 columns.
(b) Totals include pumped storage losses.

ATTACHMENT #3

NEPOOL - 1991 Load Duration Curve & Fuel Mix of Generation



WRITTEN STATEMENT

OF THE

OFFICE OF THE CHEMICAL INDUSTRY TRADE ADVISOR

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS

OF THE

UNITED STATES SENATE

ON THE

UNITED STATES - CANADA FREE TRADE AGREEMENT

May 9, 1988
Washington, D.C.

EXECUTIVE SUMMARY

The Office of the Chemical Industry Trade Advisory (OCITA) supports the United States-Canada Free Trade Agreement (FTA) and urges the Congress to enact the appropriate implementing legislation during the 100th Congress.

- OCITA believes the FTA will advance the economic interests of the United States and will benefit the chemical industry.
- The FTA is a comprehensive undertaking that will address many of the bilateral trade-related issues affecting trade flows between the United States and Canada. It is an achievement that will move toward an equitable balance of the rules of trade for both countries in a bilateral context.
- OCITA believes the energy provisions of the FTA are a significant improvement to factors that have previously affected the chemical industry. The achievement of unrestricted and secure market access to hydrocarbon supplies, elimination of two-tier pricing and the prohibition of import and export taxes or fees is a significant step toward free trade in energy products.
- The balanced, all-sector coverage in the tariff eliminations and staging provisions is an important benefit to the chemical industry, so long as it is coupled with the removal or reduction of the non-tariff barriers as indicated in the FTA.
- The FTA rules of origin affecting chemical products are a significant improvement over rules in other bilateral trade agreements and should be a good foundation for strengthening GATT rules of origin in the Uruguay Round.
- OCITA is generally pleased with the investment provisions in the FTA. Total elimination of restrictions was not achieved, but substantial reductions of the existing restrictions will significantly liberalize Canadian investment policies and enhance freer flows of capital.
- The FTA provisions on safeguards, dispute resolution and binational dispute settlement in antidumping and countervailing duty cases are fair and workable, but future improvements are desirable. OCITA believes these provisions should not be the model for future trade agreements and has outlined some recommendations for future consideration in our statement.
- Notable disappointments are the absence of any substantive provisions on intellectual property rights or disciplines on subsidies. OCITA believes clarifying language in the implementing legislation could be quite helpful to the private sector in addressing each of these issues.

The Office of the Chemical Industry Trade Advisor (OCITA) is pleased to have this opportunity to express its views on the United States/Canada Free Trade Agreement (FTA). The FTA is an important step toward freer trade with the largest trading partner of the United States. OCITA supports the Agreement, and urges that appropriate implementing legislation be passed by the 100th Congress. We commend the U.S. negotiators on this historical achievement, and look forward to providing advice and working with the Congress in the FTA implementation process.

OCITA was established in 1973 to coordinate the chemical industry's responses to policy matters under consideration by the U.S. government.

OCITA is a coalition of the Chemical Manufacturers Association (CMA), the National Agricultural Chemicals Association (NACA), the Synthetic Organic Chemical Manufacturers Association (SOCMA), and the Society of the Plastics Industry, Inc. (SPI). OCITA's members represent an important part of this nation's productive capacity for industrial chemicals. In 1987, the chemical industry accounted for a trade number of more than $9.5 billion.

Trade with Canada accounts for a significant portion of the industry's export shipments. Canada is a primary destination for chemical industry exports, receiving more than 12 percent of all U.S. chemical exports. Although the U.S. has an overall trade deficit with Canada, trade in chemicals is about even. The trade balance with

Canada has improved slightly over the last four years, and in 1987 reflected a surplus of $226 million. The FTA not only affects our exports to Canada but the overall economic health of the industry as well.

Introduction

Throughout the negotiations on the FTA, OCITA monitored the potential effects of the Agreement on the chemical industry and offered advice to the Administration. By March 1986, when President Reagan notified Congress of his intent to enter negotiations with Canada toward a FTA, OCITA had already identified nine priorities for the chemical industry in U.S./Canada trade. These priorities were identified and elaborated in OCITA's March, 1986 response to the Senate Finance Committee, a copy of which is attached.

The FTA signed on January 2, 1988, by President Reagan and Prime Minister Mulroney reflects much of the advice in our statement and addresses many of the concerns OCITA raised during the negotiating process. The Agreement should advance the economic interests of the United States, and OCITA believes it will benefit the chemical industry. We believe that certain provisions can be improved and urge that future work be so directed as the FTA is implemented. Our comments on the areas where we would like to see improvements made are intended as statements of direction for future improvements of the FTA.

The remainder of OCITA's statement expresses our views regarding specific provisions of the FTA, their impact on the chemical industry, and our recommendations for Congressional consideration during the debate on FTA implementing legislation. OCITA recognizes that use of the so-called "fast-track" approval procedures (Section 151(c) of the Trade Act of 1974, 19 U.S.C. Section 2191(c)) will preclude amendments to the implementing legislation, but offers its views in the hope that our suggestions will be considered by the Congress and the Administration as they finish drafting the appropriate implementing legislation to be submitted to the Congress.

A. Energy

OCITA welcomes the energy provisions (Articles 901-909) of the FTA that provide for unrestricted and secure energy market access, elimination of two-tier pricing and the prohibition of import/export taxes and fees. The provisions related to energy regulatory measures, national security restrictions, and state/provincial governments should enhance access to hydrocarbon supplies, and improve opportunities for consultation on energy sector disputes that may develop. Overall, OCITA believes the energy provisions of the FTA will benefit the chemical industry.

on Canadian goods than is currently permitted. OCITA recognizes that changes may not be possible in this area, but hopes that industries which may suffer injury will be able to obtain appropriate redress through the dispute resolution procedures of the Agreement.

F. Dispute Resolution

OCITA believes that the general provisions regarding dispute resolution (Articles 1801-1808) are fair and workable, but the question of private sector involvement in the dispute resolution procedures must still be resolved. Under Article 1807, if the United States - Canada Trade Commission does not resolve a dispute within 30 days, and does not refer the matter to binding arbitration, and if either party so requests, the Commission must establish a panel of experts to hear the matter. Similarly, Article 1904 provides for binational review of decisions relating to antidumping and countervailing duty matters. While the procedures particular to each of the two types of panels differs, the FTA does not detail the qualifications of panelists (except that no binational panel member may be "affiliated" with either party, under Article 1901.2).

OCITA urges that the implementing legislation expressly provide that non-governmental experts -- preferably drawn from the affected industries -- be eligible for selection to the panels. In every case, selection should be based on the technical expertise of the proposed panel member on the issue raised in the dispute. Further, the implementing legislation should designate the federal office responsible for naming and approving persons to the roster of eligible panelists. With these changes, those best qualified to bring the necessary technical expertise to the process can take part in the decision-making process.

A notable disappointment is the loss of the right under U.S. antidumping and countervailing duty cases to judicial review prior to either contracting party being able to invoke the binational panel mechanism. The requirement that future U.S. trade legislation must address its applicability to Canada under the FTA provisions is also a disappointment. In OCITA's view, these provisions should not be considered a model for other trade agreements.

G. Protection of Intellectual Property

Article 2004 of the FTA provides that the United States and Canada "shall cooperate in the Uruguay Round of multilateral trade negotiations and in other international forums to improve protection of intellectual property." Thus, despite implicit recognition that intellectual property concerns merited consideration by the negotiators, the FTA imposes no substantive obligation on either party. In fact, neither the United States nor Canada is committed to undertaking any bilateral negotiations aimed at an agreement, or even developing a framework to address intellectual property matters.

OCITA is concerned that intellectual property issues considered in a multilateral framework such as the Uruguay Round might not receive the priority attention they deserve. For this reason, OCITA supports the addition of language in the U.S. implementing legislation which provides for a commitment to negotiate substantive provisions for intellectual property protections with Canada, after the FTA is implemented. Such language would not detract from the FTA, but should encourage the development of an intellectual property agreement which could serve as a useful model for the Uruguay Round.

In the FTA, the United States and Canada reached no agreement relating to the preservation of existing intellectual property protections, or relating to the imposition of more licensing requirements or similar restrictions. OCITA believes that a commitment on the part of the United States to maintain the status quo (as in the energy and investment provisions of the FTA) for intellectual property protection should be the foundation for the development of a bilateral agreement in the near future.

H. Subsidies

With the exception of Article 1907, which establishes a Working Party to consider "rules and disciplines concerning the use of government subsidies," the FTA contains no substantive provisions regarding subsidies. The absence of any substantive, subsidy-related provisions not only fails to provide the Working Party with adequate direction, but also fails to state that countervailable government subsidies are undesirable instruments of trade policy. Article 104, by expressly continuing the obligations of each country under consistent instruments, effects no change in the application of the GATT Articles VI and XVI, and the GATT Subsidies Code. Additionally, Article 2011 allows for the commencement of dispute resolution procedures if, for example, a subsidized import "nullifies or impairs" an expected FTA benefit. However, these provisions are inadequate to encourage a full review of government subsidy programs, and will not promote measures necessary to reform such subsidy systems. OCITA believes that the FTA implementing legislation should provide some basic direction to the Working Party on subsidies, at least in focusing efforts on defining "actionable" subsidies. Transparency in the Working Party deliberations should also be encouraged to allow for the consideration of private sector views during the process.

Conclusion

The Office of the Chemical Industry Trade Advisor appreciates this opportunity to present its views on the U.S./Canada Free Trade Agreement. OCITA supports the FTA and urges its full implementation. Negotiating efforts to build on the FTA should not stop. The FTA establishes a basis to facilitate such future negotiations in areas where needed development has already been acknowledged and identified. The areas where implementing legislation can guide such further development in the FTA, in addition to objectives and timetables for these developments, are subsidies, investment, intellectual property, binational panels, dispute resolutions, safeguards, and the tariff acceleration provision.

The suggestions and additional procedures we have outlined in this statement are intended to strengthen the U.S. position in this and similar agreements. OCITA will work with the Congress and the Administration with any assistance that may be necessary to secure appropriate enabling legislation.

OFFICE OF THE CHEMICAL INDUSTRY TRADE ADVISOR
2501 M STREET N.W. WASHINGTON DC 20037 • 202 887-1149

March 19, 1986

The Honorable Bob Packwood
United States Senate
Washington, D.C. 20510

Dear Senator Packwood:

Subject: U.S./Canada Free Trade Agreement (Senate Finance Committee February 10, 1986, Request for Comments)

The U.S. chemical industry has a vital stake in a U.S./Canada free trade agreement. In 1984, the United States imported $3.1 billion of chemicals from Canada, making the United States Canada's largest customer. U.S. chemical shipments of $2.8 billion to Canada was exceeded only by those to Japan.

The Office of the Chemical Industry Trade Advisor (OCITA) is a coalition of chemical industry associations including Chemical Manufacturers Association, National Agricultural Chemicals Association, Synthetic Organic Chemical Manufacturers Association, and Society of Plastics Industry, Inc. OCITA believes that a free trade agreement with Canada, including chemicals, should:

- Confer balanced benefits to both countries;
- Ensure that present and future Canadian government chemical feedstock supply, price, access and investment policies do not serve as barriers to otherwise fair competition;
- Include all chemicals and related products in any tariff elimination provisions, not limiting them to industry subsectors or specific products which might favor one country over the other;
- Require that all Canadian products eligible for duty-free entry into the United States under the agreement have a Canadian value-added level of 70% or greater, with an unlimited offsetting allowance for the value of U.S. components;
- Provide for the mandatory reimposition of duties in the event the conditions of the agreement are not fulfilled;

- Provide safeguards against injury of U.S. industry by duty-free entry of products under the agreement; and

- Provide a mechanism for handling temporary trade distortions caused by currency fluctuations.

A detailed statement is attached that expands these principles.

We are pleased to be afforded the opportunity to present this statement on this international trade development that could have great impact on the U.S. chemical industry.

Sincerely,

Dexter Baker

Dexter Baker
Trade Advisor

Enclosure

March 18, 1986

OCITA Statement of Key Principles Concerning a Bilateral Free Trade Agreement Between the United States and Canada

1. Any bilateral free trade agreement must confer balanced benefits to both the United States and Canada.

2. Negotiations on the elimination of preferential Canadian chemical feedstock and energy policies and foreign investment restrictions must be an integral part of any U.S. tariff negotiations with Canada. In this regard, the U.S. Government must not commit itself to any tariff cuts prior to obtaining Canadian agreement to eliminate these non-tariff trade and investment barriers.

3. Other non-tariff trade barriers, such as inadequate protection of intellectual property rights, should also be considered in any free trade negotiations between the United States and Canada.

4. The tariff elimination components of a bilateral free trade agreement between the United States and Canada should include all chemicals and related products and should not be restricted to chemical industry subsectors or specific products.

5. The U.S. government should consult with the U.S. chemical industry and provide adequate opportunities for timely industry input before and during U.S. negotiations with Canada.

6. Any free trade agreement should require that all products eligible for duty-free entry into the United States under the agreement must have a Canadian value added level of 70 percent or greater, with an unlimited allowance permitted for the value of U.S. components.

7. A bilateral free trade agreement with Canada should provide for the mandatory reimposition of duties in the event of non-fulfillment of the conditions of the agreement.

8. Any bilateral free trade agreement with Canada should contain an adequate and binding dispute settlement mechanism.

9. Free trade negotiations with Canada should also address other issues, such as how temporary trade distortions caused by currency fluctuations and injury to a domestic industry by duty-free entry of products will be handled, to avoid impairment of the benefits under any bilateral free trade agreement.

THE OFFICE OF THE CHEMICAL INDUSTRY TRADE ADVISOR: COMMENTS ON A BILATERAL FREE TRADE AGREEMENT BETWEEN THE UNITED STATES AND CANADA

March 18, 1986
Washington, D.C.

THE OFFICE OF THE CHEMICAL INDUSTRY TRADE ADVISOR COMMENTS ON A BILATERAL FREE TRADE AGREEMENT BETWEEN THE UNITED STATES AND CANADA

EXECUTIVE SUMMARY

The following comments of the Office of the Chemical Industry Trade Advisor (OCITA) on a possible bilateral free trade agreement between the United States and Canada present issues which OCITA believes must be addressed by the United States prior to entering into any such agreement.

First, OCITA believes that any bilateral free trade agreement must confer balanced benefits to both the United States and Canada. One country must not benefit to the detriment of the other.

Second, OCITA believes that the long-term objective of such a free trade agreement is to achieve an open environment for international trade and investment unencumbered by barriers and governmental intervention in the marketplace. In this regard, we believe that any free trade agreement must address non-tariff barriers to trade. For example, we believe that negotiations on the elimination of preferential Canadian chemical feedstock and energy policies and foreign investment restrictions must be an integral part of any U.S. free trade negotiations with Canada.

Moreover, we believe that other non-tariff trade barriers, such as inadequate protection of intellectual property rights, should also be considered in any free trade negotiations between the two countries.

OCITA is aware that the Administration is evaluating the merits of the possible establishment of a subsectoral free trade arrangement with Canada on petrochemicals. Moreover, the Canadian chemical industry has proposed that any such negotiations address only certain products in the petrochemical subsector. OCITA is opposed to any chemical industry product or subsectoral approach. Instead, we believe that any tariff negotiations with Canada, coupled as indicated above with negotiations on non-tariff barriers, must address all chemicals and related products.

To ensure the effectiveness of the tariff elimination component of a free trade agreement with Canada, any such agreement should require that all products eligible for duty-free entry into the United States under the agreement have a Canadian value added level of at least 70 percent of the value of the product. The value of U.S. origin raw materials or other components incorporated into a Canadian product in Canada should be considered Canadian value added for purposes of the 70 percent test.

Moreover, OCITA believes that a free trade agreement with Canada should: provide for the reimposition of duties in the event of non-fulfillment of agreement conditions; address other issues, such as how temporary trade distortions caused by currency fluctuations and injury to a domestic industry by duty-free entry of products will be handled; and contain an adequate and binding dispute settlement mechanism (the dispute settlement provisions contained in the U.S./Israeli agreement are not adequate in our opinion).

Finally, OCITA believes that it is absolutely essential that the U.S. Administration provide adequate and timely opportunities for chemical industry input before undertaking any free trade negotiations with Canada, as well as during any negotiation process. OCITA urges the utilization of the Industry Sector Advisory Committee (ISAC) for this process. However, we believe that other industry groups, such as our own Association, must also be included in this consultative process.

OCITA believes that, if the issues discussed in our comments are considered by the United States Government before negotiations with Canada begin and if they are adequately addressed in any free trade agreement with Canada, then trade benefits mutually advantageous to both countries are achievable through such an agreement.

THE OFFICE OF THE CHEMICAL INDUSTRY TRADE ADVISOR COMMENTS ON A BILATERAL FREE TRADE AGREEMENT BETWEEEN THE UNITED STATES AND CANADA

I. INTRODUCTION

The United States and Canadian Governments are considering the desirability of a bilateral free trade agreement between the two countries. As a part of this analysis, the United States International Trade Commission (USITC) and the inter-agency Trade Policy Staff Committee (TPSC) have investigated the probable economic effect of providing duty-free treatment for selected imports from Canada. The results of these investigations were intended to assist the President in assessing the impact of establishing bilateral free trade in selected industry subsectors, including certain petrochemicals.

The Office of the Chemical Industry Trade Advisor wishes to make the following comments on a bilateral free trade agreement between the United States and Canada. The Office of the Chemical Industry Trade Advisor (OCITA) is a nonprofit trade association whose member companies represent more than 90 percent of the productive capacity of basic industrial chemicals in the United States.

The comments contained in this paper are not directed to either the USITC or the TPSC investigation. Rather, they present issues which OCITA believes must be addressed by the U.S. Government prior to entering into any bilateral free trade agreement with Canada.

II. GENERAL COMMENTS

The United States and Canada are each other's largest trading partner. The total trade between the two countries in 1984 equalled $113 billion. Chemical trade represents a substantial portion of this figure. In 1984, Canadian chemical exports to the United States were about $3.13 billion, and United States chemical exports to Canada totalled $2.75 billion. This reflects a 1984 chemical trade balance of about $379 million in favor of Canada. [1/]

The chemical industry of each country has substantial direct investment in the other country. In many cases, Canadian subsidiaries of U.S. companies produce intermediate or finished products, not only for the Canadian market, but also for the United States and third country markets.

In addition, the strengths of the U.S. and Canadian chemical industries complement each other. Canada has a rich base in natural resources, especially in hydrocarbons, with installed capacity for large volumes of certain basic chemicals and intermediates. The United States has a highly developed basic chemical and downstream chemical processing industry, as well as capacity to produce a variety of commodity chemicals. The United

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[1/] U.S. Dep't. of Commerce, Bureau of Census: Highlights of U.S. Export and Import Trade (FT990: December, 1984).

States also has the world's largest market for products of the chemical industry.

III. SPECIFIC COMMENTS

A. Any Bilateral Free Trade Agreement Must Confer Balanced Benefits to Both the United States and Canada.

OCITA believes that the benefits of any bilateral agreement must be even-handed; one country must not benefit to the detriment of the other. The statutory authority for such agreements supports this contention. Section 102 of the Trade Act of 1974, as amended by Section 401 of the Trade and Tariff Act of 1984, [2] indicates that such negotiations should be conducted on the basis of mutuality. Moreover, the legislative history of the 1984 Act states the intention of Congress that bilateral agreements of the sort proposed with Canada must be "reciprocal and mutually advantageous." [3]

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[2] Section 102(b)(4) of the Trade Act of 1974 (19 U.S.C. §2112), as amended by Section 401(a)(2) of the Trade and Tariff Act of 1984, 98 Stat. 3014.

[3] H.R. Rep. No. 383, 98th Cong., 2d Sess. 18 (1984); H.R. Rep. No. 1092, 98th Cong., 2d Sess. 16 (1984).

B. Any Free Trade Agreement with Canada Must Address Non-Tariff Barriers to Trade.

1. Negotiations on the Elimination of Preferential Canadian Chemical Feedstock and Energy Policies and Foreign Investment Restrictions Must be an Integral Part of Any Free Trade Negotiations with Canada.

OCITA believes that the negotiations between the United States and Canada on a bilateral free trade agreement should not be limited to the subject of tariff-cutting. The elimination of trade distortions caused by preferential Canadian chemical feedstock and energy policies and by Canadian foreign investment restrictions must also be adequately addressed in such negotiations. Furthermore, we believe that the U.S. Government must not commit itself to eliminating any tariffs prior to obtaining Canadian agreement to eliminate the trade distorting effects of these restrictive policies. Ample support for the inclusion of non-tariff barriers in such negotiations is found in the Trade Act of 1974 and the Trade and Tariff Act of 1984. 4/

4/ Sections 102(a), 103 and 105 of the Trade Act of 1974 (19 U.S.C. §§ 2112, 2113, and 2115) and Sections 302, *et seq.* and 401 of the Trade and Tariff Act of 1984 (19 U.S.C. §§ 2102, 2112(b), 2114 and 2411 (a)).

a. Canadian Raw Material and Energy Policies

OCITA believes that the internal energy policies implemented under the Canadian National Energy Policy (CNEP) have had an adverse effect on market mechanisms in Canada and on Canadian trade with the United States in energy-related products, such as chemicals. We understand that the CNEP is under review by the Canadian government and is likely to be changed. In any case, as part of a bilateral free trade agreement, we urge that the United States Government ensure that present and future Canadian governments' feedstock supply, price, and access policies do not serve as a barrier to otherwise fair competition.

This is necessary to avoid the creation, or perpetuation, of an artificial advantage for the producers of one country over those of the other. Such an assurance is particularly important to industries, such as the petrochemical industry, for which feedstock pricing and availability are critical because the cost of feedstocks represents the largest element of cost for many petrochemical products. If the trade distorting effects of the Canadian governments' policies with respect to the supply and price of, and access to, petrochemical feedstocks are not neutralized, then those Canadian policies will largely determine the conditions of competition in international trade in petrochemicals between the United States and Canada, undermining the workings of an open market system.

b. Canadian Investment Policy

The United States Government must address differences in investment policy between the United States and Canada to ensure that U.S. companies wishing to invest in the Canadian chemical industry are not subject to different or more stringent requirements than are Canadian investors in Canada.

In 1983, a General Agreement on Tariffs and Trade (GATT) panel found the Canadian Foreign Investment Review Act (FIRA) to be in violation of GATT Article III because FIRA made approval to invest in Canada contingent upon a foreign investor's acceptance of often onerous performance requirements to which domestic Canadian investors were not subject. [5/]

We understand that the Canadian Government has begun to administer FIRA in a less restrictive manner and that the Canadian Parliament has passed the "Investment Canada Act" as FIRA's replacement. [6/] While this new legislation is supposed to liberalize the requirements imposed on foreign investors, several restrictions will remain, especially on foreign acquisitions of existing Canadian companies. It remains to be seen how the new Act will be implemented.

[5/] General Agreement on Tariffs and Trade, Report of the Panel, Canada-Administration of the Foreign Investment Review Act, L/5504 (July 25, 1983).

[6/] Introduced in the House of Commons on December 7, 1984. H.C. Bill C-15, 33d Parl., 1st Sess. (1984). Became law on July 1, 1985.

In any event, OCITA urges the United States Government to seek the elimination of discriminatory Canadian investment restrictions, other than those dealing with national security, prior to finalizing a tariff-cutting agreement with Canada.

2. Other Non-Tariff Trade Barriers, Such as Inadequate Protection of Intellectual Property Rights, Should Also be Considered in Any Free Trade Negotiations Between the United States and Canada.

There is growing recognition in the United States and abroad that the effective protection of intellectual property rights is essential to increased innovation and productivity and is a vital part of international trade decisions. Provisions aimed at encouraging such protection in other countries are contained in the Trade and Tariff Act of 1984, [7] the topic is being included in numerous bilateral trade and investment negotiations, and efforts are underway by some industry groups to have intellectual property rights included in a new round of multilateral trade negotiations.

In this context, OCITA urges the United States Government to address the issue of protection of intellectual property rights as part of any free trade negotiations with Canada. Canada has traditionally recognized the importance of providing such protection. However, some problem areas remain, for example, in the pharmaceutical field. We believe that a free trade agreement with Canada should include a resolution of these issues, as well as provisions eliminating any other non-tariff trade barriers that may exist.

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[7] *See*, *e.g.*, Sections 303, 304, 503 and 505 of the Trade and Tariff Act of 1984; 98 Stat. 3001, 3005, 3019 and 3021.

C. The Tariff Elimination Components of a Free Trade Agreement with Canada Must be Effective.

1. The Tariff Elimination Components of A Bilateral Free Trade Agreement Between the United States and Canada Should Include All Chemicals and Related Products and Not be Restricted to Chemical Industry Subsectors or Specific Products.

A key issue in the U.S.-Canada negotiations is whether import duties or tariffs will be eliminated "across the board" or only on specific industry sectors, subsectors, or products. OCITA is opposed to any chemical industry product or subsectoral approach. Instead, we believe that tariff negotiations with Canada must address all chemicals and related products. We believe such broader negotiations offer greater potential for mutual trade benefits.

2. Any Free Trade Agreement with Canada Should Require That All Products Eligible for Duty-Free Entry Into the United States Under the Agreement Must Have a Canadian Value Added Level - Including the Value of U.S. Origin Components- of at Least 70 Percent of the Value of the Product.

A minimum level of "Canadian value added" must be a condition for duty-free entry into the United States under a bilateral free trade agreement with Canada. This criterion would be fully consistent with the goal of enhanced U.S./Canadian trade and would help to prevent potential abuses of a special trade relationship through transshipment practices. The value added threshold must be high enough to prevent products of third countries being passed through Canada to the United States after only formulation or minor finishing operations have been performed in Canada.

OCITA urges that the minimum domestic Canadian value added be set at 70 percent of the appraised value of the product at the time of entry, rather than the 35 percent required under the Generalized System of Preferences, the Caribbean Basin Economic Recovery Act, and the proposed bilateral free trade agreement with Israel. A higher percentage is necessary in an agreement with Canada because Canada is not a developing country and should not be given the liberal domestic value added requirements that have been granted as a concession to such countries. In addition, OCITA recommends that the value of U.S. origin raw materials or other components incorporated into a Canadian product in Canada be considered to be Canadian value added for purposes of the 70 percent test to promote bilateral trade.

3. A Free Trade Agreement with Canada Should Provide for the Mandatory Reimposition of Duties in the Event of Non-Fulfillment of the Conditions of the Agreement.

Any U.S./Canada bilateral free trade agreement should include a "snap-back" provision under which United States import duties eliminated under the agreement automatically return to column 1 rates if the conditions of the free trade agreement are no longer fulfilled. For example, if investment restrictions were reimposed by Canada or if Canada imposed a new non-tariff barrier to U.S. exports, then the duties on imports from Canada should snap-back.

D. Free Trade Negotiations with Canada Should Also Address Other Issues, Such as How Temporary Trade Distortions Caused by Currency Fluctuations and Injury to a Domestic Industry by Duty-Free Entry of Products Will be Handled, to Avoid Impairment of the Benefits Under Any Bilateral Free Trade Agreement.

Two difficult subjects that OCITA believes must also be addressed in the context of bilateral free trade negotiations with Canada are how to handle temporary trade distortions caused by currency fluctuations and what to do if a domestic industry is injured by the duty-free entry of products under an agreement. Consideration should be given to imposition of a surcharge to correct the temporary trade distortions in the first instance and to imposition of temporary safeguard duties to eliminate the injury in the second. In this regard, OCITA assumes the U.S. unfair trade statutes will continue to apply to imports from Canada.

E. Any Bilateral Free Trade Agreement with Canada Should Contain an Adequate and Binding Dispute Settlement Mechanism.

OCITA believes that any bilateral free trade agreement with Canada should contain procedures for the settlement of disputes between Canada and the United States that arise under the agreement. We do not believe that the procedures contained in the proposed U.S./Israeli agreement are adequate for this purpose.

Instead, we recommend that dispute settlement procedures in any U.S./Canada agreement: provide for a rapid and effective settlement of disputes; contain mechanisms for a binding decision in the event of a stalemate; and, most importantly, provide for significant industry input in the dispute settlement process.

F. The U.S. Government Should Consult with the U.S. Chemical Industry and Provide Adequate Opportunities for Timely Industry Input Before and During U.S. Negotiations With Canada.

As mandated by the Trade Act of 1974, and reaffirmed in the Trade Agreements Act of 1979, [8] a structure of formal industry sector advisory committees (ISACs) representing U.S. companies from all segments of U.S. business is in place. There is a widespread perception that the ISACs were not advised or consulted adequately in the course of developing the U.S./Israel Free Trade Agreement nor in earlier and subsequent U.S. Government discussions with Mexico which led to the signing of the U.S./Mexican Subsidies Agreement. OCITA strongly urges the U.S. Government to avail itself fully of this mechanism for eliciting private sector input on a timely basis if any consultations on a U.S./Canada bilateral agreement proceed.

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[8] Section 135 of the Trade Act of 1974 (19 U.S.C. § 2155), as amended by Section 1103 of the Trade Agreements Act of 1979, 93 Stat. 308-10.

Moreover, we believe that appropriate mechanisms must exist to allow for additional industry input, such as from OCITA and other trade associations, into any such negotiations so that all significant considerations can be addressed prior to any commitments having been made.

IV. CONCLUSION

OCITA believes that, if the issues raised in this paper are considered by the United States Government before negotiations with Canada begin and are adequately addressed in any free trade agreement with Canada, then trade benefits mutually advantageous to both countries are achievable through such an agreement.

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Jeffrey J. Schott

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WASHINGTON, DC
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Preface

The Free Trade Agreement (FTA) signed by the President of the United States and the Prime Minister of Canada on 2 January 1988 could, if ratified by the two countries, produce an historic linkage between their economies. It could also initiate pathbreaking responses to some of the thorniest problems of international trade and the resolution of trade disputes among nations, and thus pave the way for even more far-reaching arrangements at the global level.

This study assesses the likely impact of the FTA, particularly on the United States and the international trading system as a whole. It seeks to draw up a balance sheet on the arrangement, evaluating both its accomplishments and those issues on which its outcome was disappointing. The ultimate objective is to reach a view on whether ratification is warranted, and on the probable effects of the agreement if it is in fact finalized.

In doing so, the analysis compares the FTA as actually negotiated with proposals that were made earlier, including those of Paul Wonnacott published by the Institute in March 1987 in *The United States and Canada: The Quest for Free Trade*. The systemic effects will be based, in part, on the Institute's earlier work on needed improvements in global trading arrangements, particularly in *Trading for Growth: The Next Round of Trade Negotiations* (by Gary Clyde Hufbauer and Jeffrey J. Schott, September 1985). This appraisal also draws on the papers and comments presented to a conference on the FTA sponsored jointly by the Institute and the Institute for Research on Public Policy of Ottawa, held in Washington on 11 January 1988; those papers are being published simultaneously in a conference volume entitled *The Canada–United States Free Trade Agreement: The Global Impact*.

The Institute for International Economics is a private, nonprofit research institution for the study and discussion of international economic policy. Its purpose is to analyze important issues in that area and to develop and communicate practical new approaches for dealing with them. The Institute is completely nonpartisan.

The Institute was created by a generous commitment of funds from the German Marshall Fund of the United States in 1981, and continues to receive substantial support from that source. In addition, major institutional grants are now being received from the Ford Foundation, the William and Flora Hewlett Foundation, and the Alfred P. Sloan Foundation. A number of other foundations and private corporations are contributing to the increasing diversification of the Institute's financial resources.

The Board of Directors bears overall responsibility for the Institute and gives general guidance and approval to its research program—including identification of topics that are likely to become important to international economic policymakers over the medium run (generally, one to three years) and which thus should be addressed by the Institute. The Director, working closely with the staff and outside Advisory Committee, is responsible for the development of particular projects and makes the final decision to publish an individual study.

The Institute hopes that its studies and other activities will contribute to building a stronger foundation for international economic policy around the world. Comments as to how it can best do so are invited from readers of these publications.

C. FRED BERGSTEN
Director
February 1988

United States–Canada Free Trade: An Evaluation of the Agreement

The main objective of the US–Canada Free Trade Agreement (FTA) is to create an increasingly open market for trade and investment in goods and services between the world's two largest trading partners. Both governments have proclaimed the FTA to be a "win-win" result.

This paper examines the substantive issues raised by the FTA and the economic implications for the United States[1]. Two main criteria are used to evaluate the agreement: the economic effects on the United States; and the systemic effects, i.e., the implications of the FTA for bilateral relations and for the multilateral trading system. In so doing, I will assess the costs and benefits for the US economy of the major aspects of the FTA to determine whether the FTA is a good deal for the United States, and whether it should be ratified by the Congress.

1 Objectives and Achievements

When the United States and Canada embarked on the FTA negotiations, they had several specific objectives that were considered essential to secure political acceptance of the overall pact. For the United States, the objectives included, *inter alia,* the establishment of new rules to govern services and investment, which would preclude a return to the more interventionist investment policies of the past in Canada and could serve as building blocks for broader multilateral agreements; and the resolution of nagging trade and investment problems in sectors such as autos and energy.

Given the dependence of the Canadian economy on exports to the United States, the Canadian objective had a more singular focus: to attain greater security of access to the US market, particularly through reforms of US trade remedy laws. These goals were reshaped during the negotiations, as the

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scope of possible agreements was clarified. In the end, the negotiators sought seven basic objectives:[1]

- promote trade liberalization
- improve the climate for bilateral investment
- resolve bilateral problems in the auto trade
- resolve problems arising from disputes over the use of subsidies and countervailing duties
- create new rules to govern trade in services and liberalize the financial services market
- create a better framework for the conduct of bilateral investment and trade relations
- promote multilateral cooperation on trade and investment issues in the General Agreement on Tariffs and Trade (GATT).

The FTA deals with each of these issues in a surprisingly satisfactory manner. Notable gains were achieved in each of the areas. Both countries undertake important commitments to liberalize barriers to trade and investment and to "level the playing field" for bilateral economic relations. Some differences in the level of protection remain in certain areas, but the FTA provides balanced changes in policy from the preexisting situation. As such, the FTA provides a truly reciprocal bargain for both the United States and Canada. While the results were suboptimal and disappointing in a few instances, the deal is clearly a good one and merits ratification by the Congress.

Overall, the United States will benefit from the extensive new trading opportunities that result from the elimination of tariffs and many nontariff barriers that affect bilateral trade, from the reduction in Canadian investment controls that have restricted US holdings in Canada and often distorted trade flows, and from the enhanced security of access to Canadian energy supplies. More generally, the FTA protects US interests against a return to the inverventionist policies of the Trudeau era that provoked numerous trade and investment disputes. The FTA will promote increased US exports to Canada, facilitate US investment, *inter alia,* in the Canadian financial services sector, and enhance US energy security—and with a slightly positive impact on overall US income and employment.[2]

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[1] This list is similar to the five specific objectives of the negotiations set out in Article 102 of the FTA: to eliminate trade barriers to goods and services; to promote fair trade; to improve the investment climate; to establish joint procedures to administer the FTA and to resolve disputes; and to promote further cooperation on trade and investment issues both bilaterally and multilaterally.

Most important, the FTA will encourage increased efficiency and productivity in US industry and thereby enhance US competitiveness in world markets. This is an essential prerequisite for the sustained US effort needed to regain market share at home and abroad to bring the global US current account back into equilibrium.

Given the importance of sustained export-led growth for the US economy in the near and medium term, because of the unsustainability of the present deficit of $150 billion in the US current account, the systemic benefits that result from the FTA may perhaps prove more significant than the bilateral economic benefits for the United States. True to the "bicycle theory" of trade policy, the FTA maintains momentum for trade liberalization and thus helps counter the drift toward protectionism. The FTA puts the "bicycle" of trade liberalization upright and moving forward. In so doing, the FTA also provides a boost to the GATT and the new Uruguay Round of negotiations. In particular, dispute settlement procedures in the FTA set important precedents for GATT, particularly the resort to binding arbitration and surveillance of national trade policies. In addition, FTA provisions on services and investment are pathbreaking steps in the development of international rules to guide government policies in areas that have not been subject to extensive international discipline.

While the FTA provisions do not provide a complete model for a GATT agreement in these areas, they do contain elements--particularly the elaboration of specific rights and obligations on national treatment, right of establishment and performance and other requirements—that can help negotiators in Geneva to craft a multilateral accord. The importance of this should not be understated: the success of the Uruguay Round will depend importantly on the development of new rules on dispute settlement, services, and investment, as well as the resolution of agricultural trade disputes (see Hufbauer and Schott 1985).

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[2] The real income and employment gains for Canada will be relatively greater, as one would expect given the disparities in size between the two economies. However, that also means that Canada will face greater adjustment pressures as it reorients its economy to take advantage of the improved access to a market more than 10 times its size.

As in any negotiation, there were disappointments that need to be weighed against the benefits noted above. In several respects, the agreement did not improve the existing situation to the desired extent—and, in some cases, the FTA did not change it at all. In none of these areas, however, does the FTA result in a situation less desirable than presently exists.

The FTA achieved suboptimal results in five main areas: subsidies, investment in the energy sector, government procurement, transportation, and intellectual property rights. The failure to develop new rules on the use of domestic subsidies is the most significant, leaving a wide range of practices (including investment incentives) subject only to the discipline of national countervailing duty laws. The FTA provides for continued bilateral negotiations in this area, but the more fruitful avenue for progress may lie in the multilateral talks in the GATT.

Similarly, the absence of provisions on transportation services and on intellectual property rights is disappointing because of the lost opportunity to achieve meaningful reforms and new guidelines for public policy. By contrast, the FTA provisions on government procurement do open up new trading opportunities, but fail to make progress in extending discipline to procurement of services, or of subnational governments, or of new entities whose merchandise purchases are currently not subject to GATT rules.

The FTA also exempts Canadian energy industries from several important investment reforms. In particular, the maintenance of the Canadian ownership requirement could have a dampening effect on the development of oil and gas resources and thus offset over the long term at least some of the FTA gains in terms of enhanced US energy security.

The benefits and disappointments of the FTA from the US perspective will be elaborated in the following sections. I will first discuss the FTA from a macroeconomic perspective, including a review of its relationship to the exchange rate issue. I then review the bilateral economic relationship and the issues involved in the ratification of the FTA. Finally, I analyze the results of the FTA and conclude with a balance sheet of costs and benefits for the United States.

2 The FTA In Macroeconomic Perspective

The FTA comes at a crucial juncture for the US economy and for the world trading system. The record trade and current account deficits of the past few years have dug the US economy into a deep hole. Over the next five years or so, the United States will need an improvement of $100 to $150 billion in its current account, with an even more substantial reduction in the merchandise trade deficit because of the growing deficit on services that results from interest payments on the rapidly increasing US foreign debt (see Statement 1987, p. 3, and Bergsten 1987). This massive adjustment will require a sharp increase in US exports (particularly manufactures) and a recapture of some of the domestic market lost to foreign competitors in the early to mid-1980s when the dollar became substantially overvalued. This in turn will require an enhancement in the competitiveness of American industry and a reduction in foreign barriers to US exports, and the FTA will contribute at least modestly to both objectives.

At the same time, the extensive application of quantitative trade restrictions (especially via voluntary export restraints) has contributed to a growing trend toward protectionism and an erosion in the discipline of world trading rules (see Bergsten et al. 1987). A reversal of this trend is essential both to provide the framework needed for an expansion of US exports, as noted, and to avoid all the economic and political risks associated with market closure around the world. The current "Uruguay Round" of multilateral trade negotiations now under way in Geneva is perhaps the best chance to reinvigorate the GATT trading system.

As shown below, the FTA should spur an increase in trade between the United States and Canada. Some of the increase will result from the reduction of barriers provided by the FTA itself. Some will reflect the improved competitiveness of North American firms due to productivity gains. Some will reflect the substitution of trade from third countries as a result of the removal of bilateral trade barriers.

Some trade diversion will occur as a result of the FTA. US exports to Canada, and Canadian exports to the United States, should grow at the expense of goods from Japan, Germany, and other countries that will still face tariff and nontariff barriers. The overall trade-creating effect of the FTA should compensate third countries for at least some of these losses, however. In other words, the FTA should result in an expanded economic pie: the FTA preferences should enable US and Canadian firms to capture a greater share of the expanding markets, but third countries, though they may lose market share, may still be able to maintain or even expand sales in absolute terms.

The FTA should lead to an improvement in the US bilateral trade deficit with Canada, not necessarily at the expense of Canadian trading interests, but rather because US exports should displace some Japanese and European exports to the Canadian market. As a statement by 33 economists on the global economic crisis noted in December 1987, the US adjustment will have to come at the expense of countries with *global* surpluses such as Japan, Germany, and some of the newly industrializing countries (NICs) in Asia—and not from countries like Canada with their own current account problems (see Statement 1987).

What will the FTA contribute to this adjustment process? The most significant benefits will come from the increased productivity that will result as firms take advantage of the reduced bilateral barriers to trade and investment. Firms in both countries will gain from a reduction in input costs and from improved market access, which will enable them to achieve greater economies of scale in production and to redirect resources to more competitive product sectors. As such, the FTA will promote intra- and interindustry specialization.

Some adjustment will have to take place in both economies, but the aggregate changes should be small. Moreover, the FTA should create a better environment for economic growth, thus facilitating the adjustment process. Inevitably, some problems will arise at the plant level. Such dislocations should be accommodated, as appropriate, through national adjustment programs. As such, the US trade adjustment assistance program should be reviewed to ensure that it can meet that need.

Econometric estimates of the effect of the FTA—done mostly in Canada—indicate that, for Canada, the FTA will push real income to a higher level by 2.5 percent to 3.5 percent of GNP; estimates for the United States are much smaller, and considerably less than 1 percent of GNP (see Canadian Department of Finance 1988 and Shea 1988). The asymmetry is understandable, given the fact that Canada will obtain better access to a market that is more than 10 times its size, while US producers gain only a small increment to their already large home market.

Some may be surprised at the relatively small size of the gains of the FTA to economic output in both the United States and Canada. Clearly, the FTA is not a panacea for all the ills of either economy. Nonetheless, the trade and investment reforms in the FTA are significant actions that can contribute to the resolution of those problems. Seldom do governments have the opportunity to take actions that by themselves have such permanently beneficial impacts on their economies.

3 *The Exchange Rate Issue*

Misaligned currencies effectively can subsidize or tax goods and services traded across borders.[3] Such effects could offset benefits derived from the FTA. Indeed, when the FTA talks began, the US dollar was generally considered to be substantially overvalued, and some felt that it was overvalued against the Canadian dollar as well. Questions were raised by US Trade Representative Clayton Yeutter and others as to whether the relatively low level of the Canadian dollar constituted an implicit barrier to bilateral trade, particularly when the Canadian dollar dropped below 70 cents in early 1986—despite the fact that Canada itself consistently was running a global current account deficit.

To address these concerns, John Williamson estimated the fundamental equilibrium exchange rate (FEER) of the Canadian dollar (see appendix to Wonnacott 1987a). He found that in mid-1985 the Canadian dollar was slightly undervalued; his mid-range estimate of the FEER was then about 74 cents. The Canadian dollar has since appreciated considerably from its trough to a level of about 80 cents in March 1988. Moreover, the FTA could well lead the Canadian dollar to strengthen further over time because of the real income gains that result from the FTA (Wonnacott 1987a).

Despite recent developments in the exchange markets, there are lingering concerns that currency misalignments could distort bilateral trade flows in the future. The National Association of Manufacturers (NAM) has called for a bilateral consultative mechanism on exchange rates; the AFL-CIO has taken a more extreme position, seeking parity between the Canadian and US dollars.[4] Both positions reflect the heightened sensitivity of business and labor to currency misalignments as a result of the devastating impact on US trade of dollar overvaluation in the mid-1980s.

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[3] A country whose currency is undervalued sees its exports priced lower (in terms of the currency of the importing market) than would be the case if equilibrium exchange rates prevailed; similarly, imports into its market cost more. The reverse is true for an overvalued currency that "taxes" exports and "subsidizes" imports.

In essence, the NAM would like finance ministers to focus more attention on the implications of exchange rate policies on trade flows, and perhaps to include trade ministers in their talks. Bilateral consultations are already a subset of the multilateral consultative mechanism of the G-7 countries, but setting up regular bilateral trade-finance contacts could reinforce that process. By contrast, the AFL-CIO demand for parity is completely without merit. The US and Canadian dollars were at parity at times in the early 1970s; since then, however, the economies have experienced significantly different results, including substantially higher rates of inflation and unemployment in Canada.

The FTA sidesteps the exchange rate issue and contains no provisions on bilateral consultations or management of the US and Canadian dollars. Both governments leave that task to the ongoing efforts of finance officials in their regular bilateral contacts, in multilateral consultative bodies, and in the International Monetary Fund. The current situation would seem to be satisfactory, at least from a US standpoint, and hence its absence from the FTA should not cause a problem for the ratification process.

4 The Bilateral Economic Relationship

For the United States, the FTA presents a long-overdue opportunity to refocus attention on the important economic relationship with Canada. Although Canada is the largest US trading partner, and Americans have substantial holdings in the Canadian economy, US–Canadian relations have received less priority from US policymakers than relations with Japan or Germany or Mexico or even the NICs. In Washington the squeaky wheel attracts attention; it is perhaps a tribute to the strength and durability of the US bilateral relationship with Canada that it has been treated with such benign neglect in the past.

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[4] See, for example, statements by Alexander B. Trowbridge, president of the NAM, and by Rudolph Oswald, director of economic research of the AFL-CIO, before the Subcommittee on Commerce, Consumer Protection, and Competitiveness of the House Energy and Commerce Committee, 23 February 1988.

The United States and Canada conduct the world's largest bilateral trade in goods and services. As shown in table 1, merchandise trade totaled almost $133 billion in 1987; US exports reached almost $60 billion and US imports were about $73 billion. About one-third of this trade is in automotive products that is already substantially free of trade restrictions. Bilateral trade in services was also significant and approached $31 billion in 1987, with US exports of $20.5 billion and imports of $10.2 billion. The substantial US surplus results primarily from the investment income received from US investments in Canada, though the United States also runs a surplus in nonfactor services trade (see Schott and Smith 1988). The aggregate US bilateral trade in goods and services in 1987 was slightly in deficit, with US exports of $80.3 billion and US imports of $82.9 billion.

The narrowing of the US deficit in the bilateral current account since 1985 results from largely offsetting trade and income flows. For the past five years, the US merchandise trade deficit with Canada has averaged almost $14 billion. However, the US trade deficit with Canada peaked in 1985 at $15.7 billion and declined to $12.9 billion in 1987. By contrast, the US surplus on factor and nonfactor services has averaged almost $11 billion for the past five years. Both balances seem to be moderating, however, in light of the recent appreciation of the Canadian dollar vis-à-vis the US dollar, and the growth of Canadian direct investment in the United States since 1983 (which should bolster Canadian investment income in coming years).

A discussion of the balances also masks the enormous difference in importance of bilateral trade to the two economies. As shown in table 1, US trade with Canada accounts for less than a quarter of US exports and less than a fifth of US imports. The export market share has grown during the 1980s, however, from 18 percent in 1980 to 23.6 percent in 1987—and Canada remains America's largest trading partner. By contrast, the United States accounts for almost three-fourths and two-thirds of Canadian exports and imports, respectively. The US market also has been of growing importance for Canadian exports, accounting for almost 77 percent in 1985–1986 compared to 62 percent in 1980 (see table 2). Canadian exports to the United States account for almost 20 percent of Canadian GNP, while US exports to Canada represent only 1.3 percent of US GNP.

The increasing Canadian dependence on the US market helps explain Canada's strong interest in market access assurances—which subsequently led Canada to be the demandeur in the FTA negotiations. Until 1985, however, interest in bilateral trade negotiations was not particularly strong in either country.

TABLE 1 **US trade with Canada*** (billion US dollars)

	Merchandise exports	*Percent of total US exports*	*Merchandise imports*	*Percent of total US imports*	*Trade balance*	*Services exports*	*Services imports*	*Bilateral current account balance*
1980	40.7	18.0	42.0	17.1	−1.3	15.2	6.6	7.3
1981	44.6	18.7	47.4	18.2	−2.8	15.1	5.8	6.5
1982	38.1	17.6	47.8	19.6	−9.7	14.6	5.1	−0.2
1983	43.1	21.0	54.8	21.2	−11.7	17.4	6.1	−0.4
1984	51.7	23.1	67.1	20.6	−15.4	18.6	7.3	−4.1
1985	53.9	24.6	69.6	20.2	−15.7	16.6	7.5	−6.6
1986	55.6	24.5	68.9	18.8	−13.3	18.1	7.0	−2.2
1987	59.8	23.6	72.7	17.9	−12.9	20.5	10.2	−2.6

* Data include adjustments for undocumented exports and other reconciliation adjustments. Imports are on a customs value basis. Services trade data for 1987 are at an annualized rate based on statistics for the first nine months of 1987.

Source: US Department of Commerce, Bureau of the Census, *Advance Report of US Merchandise Trade: December 1987, FT 900 ADV*, 12 February 1988; *Survey of Current Business*, various issues (Table 10: US International Transactions, by area).

In the United States, the focus of trade policy in the early 1980s was the launching of a new round of multilateral trade negotiations, under the auspices of the General Agreement on Tariffs and Trade (GATT), to extend or expand GATT coverage of services, trade-related investment and intellectual property issues, and agricultural programs. The failure of the 1982 GATT Ministerial prompted a search for alternative strategies, however. Bilateral trade agreements with "like-minded countries" were seen as both building blocks for potential GATT accords and a fallback in case GATT talks failed. Negotiations took place with countries in the Caribbean basin and with Israel. Indeed, the free trade agreement with Israel—though more important from a political than an economic perspective—established a precedent that could be applied to the much more substantial economic relationship with Canada.

The bilateral approach also seemed to fit better with congressional skepticism about the GATT. The 1982 GATT Ministerial badly damaged the credibility of the GATT (see Schott 1983) and led to efforts to develop new US trade legislation that would protect US trading interests more effectively and expeditiously than GATT procedures. This effort grew more strident and more protectionist as the record US trade deficits mounted in successive years. The Reagan administration successfully opposed domestic content and textiles legislation, but the omnibus trade bill of 1984 was salvaged at the last moment by the removal of numerous protectionist provisions, although

TABLE 2 **Canadian dependence on US trade** (percentage)

	Exports to US as share of total Canadian exports	*Imports from US as share of total Canadian imports*	*Canadian exports to US as percent of Canadian GNP*	*US exports to Canada as percent of US GNP*
1980	62.0	66.7	16.3	1.5
1981	65.2	65.3	16.5	1.5
1982	67.1	67.2	16.3	1.2
1983	71.7	68.2	17.1	1.3
1984	74.4	68.0	20.1	1.4
1985	76.7	68.1	20.4	1.3
1986	76.8	66.5	19.4	1.3
1987	73.1	67.1	18.5	1.3

Source: IMF, *International Financial Statistics* (February 1988) and *Direction of Trade Statistics Yearbook* 1987.

new qualifications were added on the use of fast-track provisions for implementing bilateral trade agreements, which, as noted below, almost resulted in the early demise of the FTA process (see Destler 1986). However, these legislative "achievements" came at a high cost in administered protection, notably tightened controls on bilateral textile trade, new restrictions in the Multi-Fiber Arrangement, and extensive voluntary export restraints on steel and several other products. Indeed, Treasury Secretary Baker has boasted that the Reagan administration has defended American trade interests by imposing more protection than any other administration in the past 50 years (Baker 1987).

In this environment, and with growing Canadian dependence on exports to the United States, it is not surprising that the new Conservative government of Brian Mulroney reappraised its opposition to bilateral trade negotiations with the United States in early 1985. The Canadian economy was buffeted by high unemployment and a sharp decline in its terms of trade due to the slump in commodity markets.[5] It could therefore ill afford additional doses of US protectionism.

The "Shamrock" Summit between President Ronald Reagan and Prime Minister Brian Mulroney in Quebec in March 1985 set both countries on track for bilateral trade liberalization. The goal was "to establish a climate of greater predictability and confidence for Canadians and Americans alike to plan, invest, grow and compete more effectively with one another and in the global market."[6] To that end, they directed their trade officials to determine how to "reduce and eliminate existing barriers to trade" and to report back within six months, and to resolve a list of longstanding bilateral trade problems.

Following the recommendations of the report issued on 5 September 1985 of the Royal Commission on the Economic Union and Development Prospects of Canada, chaired by former Canadian finance minister Donald Macdonald, the Canadian government decided a few weeks later to broaden this effort to encompass the negotiation of a bilateral free trade agreement. President Reagan concurred and formally notified Congress on 10 December 1985 of his intention to negotiate a trade agreement with Canada under the fast-track implementing procedures as amended by the Trade and Tariff Act of 1984.

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5. For further discussion, see the appendix by John Williamson in Wonnacott (1987a).

6. Declaration by the Prime Minister of Canada and the President of the United States of America Regarding Trade in Goods and Services, Quebec, 18 March 1985.

Under the new fast-track provisions as extended to bilateral arrangements in 1984, the House Ways and Means Committee or the Senate Finance Committee had 60 legislative days to disapprove of the President's initiative. After a rancorous debate, the vote by the Senate Finance Committee in April 1986 ended in a 10-10 tie, thus allowing the FTA negotiations to proceed by the slimmest of margins. To achieve this result, however, the President had to commit to "finding a rapid and effective solution to the Canadian softwood lumber problem . . . independent of the comprehensive negotiations."[7] Action on softwood lumber, as well as the imposition of tariffs in May 1986 against Canadian imports of wood shingles and shakes pursuant to an escape clause case, created an inauspicious start for the FTA negotiations on 21 May 1986 in Ottawa. It did, however, provide Canada with a sharp reminder of the risks involved in *not* going forward with the FTA process.

One need not recount the vagaries of the negotiating process, which languished for more than a year before entering a final, frantic stage starting in the summer of 1987. This last push was driven by the need to conclude talks by 3 October 1987 to meet the 90-day prenotification requirement to qualify for the fast-track implementing procedures that expired on 2 January 1988. This deadline was met with only minutes to spare. However, the negotiators produced only the framework of an agreement, including a general description of the major concessions agreed to by both countries. The final text was not completed until 9 December 1987 and was signed by President Reagan and Prime Minister Mulroney on 2 January 1988.

5 *The Ratification Issue*

The governments of the United States and Canada now face the responsibility of ratifying and then implementing the historic agreement that they have negotiated. The ratification debate already has been joined in both countries.

In the United States, ratification of the FTA will be facilitated by the fast-track procedures of the Trade Act of 1974, which require an up-or-down vote on the entire FTA package without amendment within 90 legislative days of submission of implementing legislation by the President. Given the congressional calendar, it is possible that such a vote could be delayed until 1989, after the planned entry into force of the FTA on 1 January 1989.

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[7] Letter of President Ronald Reagan to Senator Bob Packwood, 8 May 1986.

However, the procedure worked out in an exchange of letters in February 1988 between the administration and congressional leaders—which provides for the joint drafting of implementing legislation for the FTA—commits to a ratification vote in 1988. The administration promised to "accept the provisions worked out in the consultative process provided they are consistent with the Agreement and its implementation and are appropriate to carrying out its fundamental purposes."[8]

By cooperating in this way with the Congress on the FTA legislation, the administration increases the probability that provisions of the omnibus trade bill (HR 3) will be modified in conference so that certain provisions of the bill that could upset the negotiated balance of concessions in the FTA—notably those relating to changes in the antidumping and countervailing duty law—will be dropped. If they are not, the President can still veto the omnibus bill as he frequently has threatened to do. The exchange of letters should lessen the threat that the FTA implementing legislation will be "held hostage" to administration acceptance of the omnibus trade bill, or that there will be a strong backlash against the FTA bill if the President vetoes the omnibus trade bill.

A more likely threat, however, may come from efforts by particular domestic interests to "claw back" reforms contained in the FTA, effectively amending the FTA package through provisions in the FTA implementing legislation.[9] Indeed, the US maritime industry already achieved a major clawback in the FTA while the final text was being drafted in November 1987 by forcing the deletion of provisions that could have exempted Canada from *future* changes in US maritime restrictions (such as the Jones Act). As a result, the entire transportation sector was eliminated from the services chapter. If provisions of the implementing legislation are inconsistent with the FTA, it could prompt reciprocal actions by Canada and result in the unraveling of the FTA package.[10] However, the President has the final word on the composition of the FTA implementing bill since he submits the proposed legislation to the Congress under the fast-track procedures, and has said he will not approve such provisions.

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[8] Letter of James A. Baker III and Clayton Yeutter to Jim Wright, Dan Rostenkowski, Robert Byrd, and Lloyd Bentsen, 17 February 1988.

[9] For example, auto parts manufacturers in both countries recently have called for an increase in the North American origin requirement in the FTA from 50 percent to 60 percent to encourage greater use of US and Canadian products. The impact of such a change is discussed below in the section on autos.

[10] Clawbacks are not unique to the United States. A Canadian proposal for a duty remission scheme for textiles threatens to undercut FTA tariff concessions and to provoke reciprocal withdrawals in US concessions in the FTA.

In Canada, the implementing process under the parliamentary system of government is more predictable. The ruling Conservative Party has a large majority in the House of Commons and will eventually prevail over the Liberal majority in the non-elected Senate, which can delay but not block acceptance of the FTA. Ratification is therefore almost assured as long as the Conservatives remain in power. The Liberal Party opposes the FTA, however, and may seek to revise the agreement if it returns to office in an election that must be held by late summer 1989.

A more delicate problem remains, however, as to whether some provinces will abide by certain specific obligations (for example, on wine) under the FTA. Article 103 of the FTA commits both national governments to ensure compliance by state, provincial, and local governments. The failure of those subnational governments to comply would be considered a violation of a national obligation and could be subject to retaliation or compensation under FTA provisions.

What would happen if the FTA was not ratified by both countries? The domestic process is not without its pitfalls. The squeaky wheels are already sounding in Washington, Ottawa, and some states and provinces. Some argue that the FTA does not meet their expectations; others complain that the agreement is unbalanced, at least in particular sectors; and still others want more protection, not trade liberalization. These concerns will have to be weighed against the significant economic and systemic benefits of the FTA detailed below.

However, the issue facing both countries is more complicated than that. One cannot turn back the clock to the Shamrock Summit of March 1985 and continue bilateral relations as if the negotiations had never occurred. Expectations have been raised by the FTA process; having tried and failed would be much worse than not having tried at all. The rejection of the FTA at this stage *by either country* would have a substantial impact on US–Canadian economic and political relations, which has to be considered in the cost-benefit analysis of the FTA.

The failure to ratify would be costly to both bilateral relations and to the GATT process. A US rejection would likely provoke a nationalist response in Canada that would adversely affect bilateral relations. Furthermore, it would cast serious doubt on the willingness of the United States to pursue trade reforms. It would thus send a damaging signal to the GATT—if two countries with complementary economies, extensive bilateral trade and investment, and a long history of friendship cannot succeed in liberalizing trade, what hope is there for the more heterogeneous GATT negotiations? The "bicycle" would be seen to be toppling, and the GATT system would suffer a loss in terms of the effort to renew momentum toward trade liberalization.

Canadian rejection of the FTA also would have profound implications for bilateral trade relations. As the leading US trading partner, Canadian exports could be affected by changes over time in US antidumping and countervailing duty laws, which could provoke a wave of new trade disputes. In addition, the United States could resort quite possibly to 301 actions against discriminatory trade and investment practices in Canada, following the precedent of US policies vis-à-vis Japan, Korea, and Taiwan. As such, the trend toward process protectionism in the United States would be reinforced. A key reason for Canada to ratify the FTA is to subscribe to an important insurance policy against potential trade problems with the United States.

6 *Analysis of the FTA Results*

The FTA covers a wide range of sectors and functional issues. The following sections detail the specific benefits and shortcomings in each area.

TRADE LIBERALIZATION

Both the United States and Canada will benefit from the elimination of tariffs on bilateral trade, the opening up of more government contracts to competitive bidding, the liberalization of energy trade, and the removal of some barriers to agricultural trade. The following subsections provide preliminary estimates of the economic consequences of the FTA reforms in these areas.

Tariffs—One of the major achievements of the FTA is the elimination of all tariffs—without exception—between the two countries over a ten-year period. Tariffs on some products will be eliminated immediately, but most of the cuts will be phased in over five to ten years in equal annual installments.

Existing tariffs are generally low in the United States, though high tariffs remain in sectors such as apparel and some chemicals. The average duty collected on dutiable imports from Canada in 1985 was only 3.3 percent, or 0.9 percent of the total value of Canadian imports (most of which already enter duty-free). Canadian tariffs are substantially higher, averaging 9.9 percent on dutiable US imports. Including duty-free US imports, however, the average Canadian levy on US goods falls to 2.4 percent. Given the current relatively low tariff barriers, one should not expect dramatic trade gains *in the aggregate* from the FTA tariff cuts. Despite the low average tariff, however, some industries currently are protected by high tariffs and thus substantial shifts in trade could occur in specific sectors.

As shown in table 3, based on 1985 data for dutiable imports, 35 percent or $6.7 billion of US dutiable imports from Canada, and 53.4 percent or $7.2 billion of Canadian dutiable imports from the United States, will be

TABLE 3 **Staging of FTA tariff cuts**

	1/1/89		*1/1/94*		*1/1/99*		*Total*	
	US	*Canada*	*US*	*Canada*	*US*	*Canada*	*US*	*Canada*
Value of trade affected (million 1985 US dollars)	1,105	1,760	11,281	4,549	6,670	7,230	19,056	13,540
Percentage of dutiable imports for which tariffs are eliminated*	5.8	13	59.2	33.6	35	53.4	100	100
Value of duties affected (million 1985 US dollars)	43.7	82.9	272.7	447.9	307.6	806.2	624	1,337
Percentage of duties collected on bilateral trade	7	6.2	43.7	33.5	49.3	60.3	100	100

Source: US Department of Labor. (Preliminary data as of February 1988)

*Excluding petroleum and products, subject to 5-year US staging, the US cuts are 9, 47, and 44 percent in 1989, 1994, and 1999 respectively.

subject to a 10-year phase-out. The products with the longest phase-out generally are also those with the highest tariffs: almost 50 percent of US duties collected and 60 percent of Canadian duties collected come from products with a 10-year phase-out. However, the dollar value of the duties affected by the cuts—i.e., the revenue foregone from the tariff cuts—was more than twice as large for Canada in 1985 as for the United States ($1.3 billion versus $624 million).

The tariff cuts should lead to increased *bilateral* exports by both countries. The size of the increase and the impact on the bilateral trade balance are difficult to estimate, however. Much depends on the trade-creating effect of the increase in real income for producers and consumers that results from the economies of scale, lower production costs, and increased productivity generated by the trade and investment reforms.

Part of the effect can be estimated, however, through a partial equilibrium analysis of the impact of the tariff cuts. Tables 4 and 5 contain preliminary calculations that indicate that US exports to Canada should increase by about $2.4 billion compared to a Canadian gain of $1.1 billion (both figures in 1985 US dollars) after all the tariff cuts are implemented fully.[11] These figures represent only the tip of the iceberg of the trade effect of the FTA and undoubtedly underestimate the total trade creation and overestimate the bilateral gain for the United States that will result from the growth in both economies. For example, the calculations capture only increases in products already traded. In some instances, new opportunities will be created for products that have not been exported in the past; these gains are not included in the above estimates. Moreover, the calculations do not reflect the potential increase in intraindustry trade. As has been demonstrated in the auto sector since 1965, trade can grow substantially within the same industry as companies specialize in particular product lines.

In many sectors, exports grow in both countries, indicating that the FTA cuts will result in *intra-* as well as *inter*industry specialization. As shown in tables 4 and 5, bilateral trade in machinery, chemicals, and scientific instruments should grow substantially when the tariff cuts are phased in. Exports will increase in both countries, but in these sectors and others the growth in

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[11] These figures are highly sensitive to the assumptions of the import demand elasticities. US imports probably are underestimated because the elasticity of demand for imports from Canada should be higher than the global import elasticity used in the calculation for each sector of US imports at the two-digit level.

TABLE 4 **Impact of tariff cuts on US exports to Canada***

SIC	*Industry*	*1985 Canadian dutiable imports from US (million dollars)*	*1985 Duties paid (million dollars)*	*Average duty (percent)*	*Import elasticity*	*Increased imports (million dollars)*
35	Machinery	2,838	209	7.4	−2.07	404.8
36	Electrical machinery	1,661	172	10.4	−2.07	323.9
28	Chemicals	1,283	139	10.8	−2.07	258.9
34	Fabricated metals	1,013	104	10.3	−2.07	195.8
37	Transportation equipment	943	96	10.2	−2.07	180.7
38	Instruments	829	59	7.1	−2.07	113.8
30	Rubber	741	97	13.1	−2.13	182.8
33	Primary metals	724	50	6.9	−2.07	96.7
20	Food products	701	62	8.8	−0.76	43.1
26	Paper	513	45	8.8	−2.07	85.9
Subtotal		11,246	1,033	9.2	−1.99	1,886.4
Other industries		2,294	304	13.3	−2.07	557.4
Total		13,540	1,337	9.9	−2.00	2,443.8

* Based on data as of October 1987. Minor revisions to conform the data with the new harmonized system of tariff nomenclature are currently being made by both governments.
Source: US Department of Labor, and Cline et al. (1978) for import elasticities.

US exports should be higher. In other sectors such as paper, the reverse is true, and Canada should gain proportionately more than the United States.

What this means is that the tariff cuts will promote the adjustment of industries on both sides of the border. Some dislocations may occur but they are likely to be small. Moreover, adjustment should be eased by the extended phase-in period of the tariff cuts. In addition, since much of the adjustment will be intraindustry, the impact on labor should be eased somewhat because skills should be similar and relocations should often take place within the same firm and/or close geographic area.

Where particular adjustment problems exist, affected industries can benefit from national adjustment assistance programs to facilitate worker retraining

TABLE 5 **Impact of tariff cuts on US imports from Canada***

SIC	Industry	1985 US dutiable imports from Canada (million dollars)	1985 Duties paid (million dollars)	Average duty (percent)	Import elasticity	Increased imports (million dollars)
13	Oil and gas extraction	4,429	15	0.3	−1.21	16.0
35	Machinery	2,090	74	3.5	−1.02	72.1
33	Primary metals	2,012	65	3.2	−1.21	75.5
29	Petroleum refining	1,610	13	0.8	−0.96	12.3
36	Electrical machinery	1,441	78	5.4	−1.00	73.8
20	Food products	956	46	4.8	−1.13	49.5
30	Rubber	863	38	4.4	−5.26	191.3
34	Fabricated metals	793	36	4.5	−1.40	47.8
28	Chemicals	790	69	8.7	−2.53	160.0
37	Transportation equipment	779	26	3.3	−3.28	81.6
25	Furniture	437	16	3.7	−3.00	46.8
38	Instruments	437	23	5.3	−1.70	37.4
26	Paper	341	12	3.5	−0.55	6.3
24	Wood products	266	13	4.9	−0.69	8.6
32	Stone, clay, and glass	258	11	4.3	−1.60	17.0
Subtotal		17,502	535	3.1	−1.70	896.0
Other industries		1,554	89	5.7	−2.00	167.6
Total		19,056	624	3.3	−1.75	1,063.6

* See note to table 4.

Source: US Department of Labor, and Shiells, Stern, and Deardorff (1983) for import elasticities.

and relocation. Existing programs should be reinforced to better accommodate adjustments that may result from the FTA.

In the aggregate, there should be net employment gains in both countries as trade expands and real income grows over time. For the United States, however, the gains should be quite small in almost all sectors and barely noticeable from existing labor market fluctuations—according to recent estimates of the employment impact in 21 US industrial sectors (Shea 1988). This is consistent with the relatively small aggregate welfare gains for the US economy from the FTA. Employment gains will be generated primarily by the trade balance effect. However, if one uses the rule of thumb that 25,000 jobs are created in the United States for each $1 billion increase in net exports, US employment should expand by only about 32,000. By contrast, the Canadian government estimates that Canadian employment should increase by 120,000 jobs by 1993 due to the welfare effects noted above (Canadian Department of Finance 1988).

Government Procurement—The FTA will also open up significant new trading *opportunities* because the threshold of the contract value for the application of competitive bidding procedures and other rules provided for in the GATT Government Procurement Code will fall from $171,000 to $25,000. The governments estimate that $3 billion of US contracts and $500 million of Canadian contracts will be affected by the lower threshold. Note, however, that the FTA does not extend GATT discipline to procurement by subnational governments, or expand the scope of entities subject to the rules, or include services contracts. As such, the FTA makes only a small inroad in reforming procurement practices and offers little in the way of precedent for the Uruguay Round negotiations.

How much trade will expand depends on the types of goods subject to competitive tender and the propensity to import such goods in each country instead of sourcing from domestic companies. In a study conducted before the FTA was completed, the Economic Council of Canada concluded that the removal of barriers to federal procurement of goods would result in a net gain of C$800 million (in 1984 prices) for Canada. However, the preponderance of the gains derive from increased sales of transport equipment other than motor vehicles, which are *not* subject for the most part to the FTA revisions. Without "other transport equipment," their estimates show that Canadian exports would increase by C$690 million and US exports by C$746 million (in 1984 C$), resulting in a net gain of C$56 million for the United States (Magun et al. 1987).

Energy—The FTA bans most border restraints and minimum price requirements on bilateral energy trade, which totaled about $10 billion in 1987. Most of the trade involves Canadian exports of natural gas, electricity, uranium, and oil—indeed, Canada was the largest supplier of oil to the United States in 1987.

The FTA contains broad-based commitments not to impose restrictions on imports and exports—including quotas, taxes, or price requirements—subject to limited national security and short supply exceptions. Compared to GATT rules, however, the energy security safeguards are sharply circumscribed. For example, the national security exemption is limited to fulfillment of military-related requirements, and short supply restrictions must provide for proportional sharing of supplies with the other country.

In essence, the FTA ensures that in most cases energy trade will be based on commercial considerations, with prices set by market forces. As such, the FTA protects against a repeat of the pricing disputes and the oil export controls and export taxes that Canada imposed during the decade following the 1973 OPEC oil shock. This should give US consumers greater assurance of access to energy supplies at market prices.

For electricity, the FTA restricts the application of Canadian surplus tests that could limit US access to Canadian supplies, and "least-cost energy alternative" pricing practices that tend to increase the price of Canadian electricity exports to the United States. As a result, key obstacles to New England's purchases from hydroelectric plants in Quebec will be removed. In addition, US consumers should also benefit somewhat from FTA provisions that accord Canadian producers of electricity improved, though still somewhat limited, access to the California market over the Northwest Intertie.

For natural gas, FTA provisions should promote trade by eliminating price discrimination and by facilitating consultations on regulatory disputes. Canadian gas exports should continue to grow, although differences in regulatory policies in each country may slow progress. Assuming the necessary transportation facilities are built, the US Energy Department estimates that growth in domestic demand for natural gas should lead to a displacement of some oil imports, particularly from the Middle East.[12] As such, the FTA should help increase gas sales in the United States. While the impact of the FTA may differ by region, overall the FTA should help US gas producers.

The situation in uranium is different. Barriers to the export of Canadian uranium and to its enrichment in the United States will be lifted, removing a source of long-standing trade friction but subjecting the US industry to increased competition. US uranium producers have been dogged in recent years by overcapacity, by the slump in the nuclear power industry, and by excess inventories. The US industry has been consolidating, and this trend will continue with or without the FTA. Given the problems faced by the US uranium industry, the US government might consider providing adjustment assistance for the industry under the appropriate trade statutes to ease the burden of adjustment.

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[12] The US Department of Energy has estimated that over time natural gas could displace as much as 1 million barrels per day of imported oil. See statement of William F. Martin, Deputy Secretary of Energy, before the Subcommittees on International Economic Policy and Trade and Western Hemisphere Affairs of the House Committee on Foreign Affairs, 25 February 1988.

Some US producers have complained that the FTA market access guarantees leave them vulnerable to increased competition from energy imports from Canada. While this may be true for uranium, other Canadian energy imports represent only a small share of US consumption (5.3 percent of natural gas, 1.8 percent of electricity, and 3.6 percent of oil in 1985). Thus, increased Canadian energy imports—which as noted above will displace other imports in some instances—should not pose significant competitive problems for US producers. And if US industry is concerned that such trade benefits from subsidies, the FTA still allows recourse to protection under national countervailing duty statutes.

Overall, the energy section of the FTA reinforces US energy security and benefits US consumers, especially energy-intensive industries, by removing minimum price requirements and by enhancing supply access assurances. However, the stimulus to the development of energy resources that should result from increased trade and access guarantees needs to be weighed against the restrictive impact on exploration and development resulting from the grandfathering in the FTA of Canadian ownership restrictions in the energy sector. Such investment controls could impede the development of North American energy supplies and thus could have a potentially adverse impact on long-run energy security (see Verleger 1988). This problem already exists and is not remedied by the FTA. Close bilateral cooperation is needed to ensure that this risk is avoided and that remaining investment controls are liberalized over time.

Agriculture—The United States and Canada are two of the world's largest exporters of grain and are strong supporters of liberalization in the agricultural sector. However, because of extensive quotas and licensing requirements, and the complementary nature of the farm economy in the two countries, trade in agricultural goods accounts for only about 4.5 percent of total bilateral trade.

While the FTA eliminates agricultural tariffs and removes some nettlesome nontariff barriers, the major farm policies in both countries are left untouched.[13] The most significant result is the immediate elimination of Canada's discriminatory pricing system for distilled spirits and the phase-out over seven years of barriers against wine imports. Both sides knew that reforms of national farm policies could only be accomplished in a multilateral context. As a result, they kept their powder dry in the North American talks awaiting the bigger battle in the GATT, where the United States is working closely with Canada and other members of the so-called Cairns Group to develop new multilateral disciplines on subsidies and other agricultural support programs (see Hathaway 1987).

IMPROVEMENTS IN THE INVESTMENT CLIMATE

As the barriers to bilateral trade in goods and services are reduced substantially over the next decade, the FTA provisions on investment will become increasingly important. The agreement will ensure that companies can take advantage of new opportunities by scaling production to the enlarged North American market, and by pursuing intraindustry specialization strategies.

The FTA provisions improve the investment climate in both countries in two important respects. First, they establish common rights and obligations—including a commitment in most instances to national treatment—that should preclude a repetition of the fractious investment disputes and policy reversals that put a cloud over US investment in Canada during the past decade. Second, both the investment and the financial services chapters should open up broad new opportunities for US investment in Canada, particularly in financial services.

The United States entered the FTA talks seeking to preclude a return to the interventionist investment policies of the Trudeau regime, when the National Energy Policy forced US divestment of holdings in Canadian energy companies, and when screening by the Foreign Investment Review Agency (now renamed Investment Canada) prompted US firms to forgo profitable investments or to commit to costly performance requirements as an implicit condition for approval of the investment. In many respects, the FTA removes the threat of a return to Canada's interventionist investment policies of the past.

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[13] Some US farmers have complained about FTA benefits provided Canadian wheat producers, which currently supply less than 6 percent of the US market for hard red spring and durum wheat. The FTA provisions could lead to increased Canadian exports, which would affect primarily producers in the northern plains states. However, the aggregate economic impact should be small.

After a short transition period, the FTA eliminates screening requirements in most cases for the establishment of new businesses in Canada by US interests (greenfield investments) and indirect US acquisitions, and raises the threshold for screening of direct acquisitions so that by 1992 it will apply only to about the top 600 firms in Canada. The FTA will reduce by more than 90 percent the number of Canadian firms for which screening would be required before US investments could be made. However, screening will still apply to US investments in firms accounting for a substantial proportion of the Canadian economy because of the relatively high concentration of Canadian industry typical of smaller economies. The FTA therefore removes numerous barriers to US investment in Canada, but leaves intact some controls over takeovers of major Canadian companies.

The FTA bars the introduction of new trade-related performance requirements, which have been used in the past to discourage foreign investment in Canada, to influence the location of investments, and to impose costly conditions on the sourcing of inputs and the distribution of final products. These changes apply to foreign investment in Canada only by US interests. While nontrade related performance requirements may still be imposed, the FTA makes them more difficult to impose and enforce because of the curtailment of screening by Investment Canada. This should be a major benefit for US companies seeking to invest in Canada.

In particular, the FTA makes significant progress in opening up new investment opportunities in the Canadian financial services sector. The FTA removes many restrictions on US banks that inhibited their expansion, including the 16 percent ceiling on the total assets of foreign subsidiaries in the Canadian market. Insurance companies will likewise benefit from the relaxation of the so-called "10/25 rule," which limits both individual and aggregate foreign participation in certain Canadian companies. This rule had restricted their investment opportunities in Canada and thus undercut their competitiveness in the Canadian market. In brief, the FTA will allow US companies to participate—with a distinct advantage over other foreign firms—in the dynamic growth and integration of Canadian financial markets.

In addition, the FTA contains numerous safeguards for US investors already established in Canada. In particular, it imposes the US-preferred international law standard to deal with expropriation claims to ensure adequate compensation, and provides a "right of exit" to sell holdings to US and other foreign investors.

Despite the liberalization of important investment controls and screening requirements by the Canadian government, the FTA does not create a completely open environment for investment in either country. Significant restrictions remain in sectors such as energy and in cultural industries, and screening still applies to US investments in the major Canadian companies. The United States also maintains its existing, though more limited, controls on inward foreign direct investment. In addition, the FTA does not discipline the use of investment incentives that can distort investment flows. Because of the remaining controls, critics of the investment chapter of the FTA have raised two serious concerns:

- the FTA legitimizes exclusions from investment obligations for other than prudential, fiduciary, or national security reasons by exempting cultural industries, thereby creating an undesirable precedent for other international investment agreements

- the FTA explicitly accepts the continuation of an asymmetrical policy regime, in which the United States maintains its open investment policy while Canada maintains some restrictions.

The latter concern is inspired in part by the prospect of hostile foreign takeovers of US firms in the aftermath of the sharp depreciation of the US dollar. While legitimate, this concern overemphasizes the shortcomings of the FTA and undervalues the US gains in several respects.

First, the FTA contains across-the-board exclusions for the cultural industries, not just for the investment chapter. The Canadian concern about cultural sovereignty was a unique aspect of the FTA negotiations given the proximity, and the prospective degree of integration, of the two economies. The exclusion of cultural industries need not set a precedent for open-ended exceptions to treaty obligations in investment negotiations in other contexts and in other forums.

Second, the asymmetry in investment policies is not ideal—the United States would have fared better with a Canadian policy as open as its own. However, given current political constraints, it is uncertain whether greater liberalization than that achieved in the FTA would have been sustainable in Canada. The FTA reforms make it a great deal easier for US firms to invest in Canada. The FTA requires Canada to undertake substantial reforms in its investment policies. As such, the FTA reduces, but does not eliminate, the asymmetries in bilateral investment policies.

Before attaching too much importance to the remaining asymmetry in investment policies, however, one should consider other areas of the agreement where the United States achieves asymmetrical gains. A good example is financial services, where the Glass-Steagall Act continues to impair Canadian activity in the United States while the FTA substantially opens up the Canadian market for US banks, securities firms, and insurance companies. ''Symmetry'' would have compelled the United States to junk Glass-Steagall, or accept a level of discrimination in the Canadian market (since Canada does not maintain comparable barriers to commercial and investment banking). ''Reciprocity,'' on the other hand, involves balanced changes in policy from the existing situation, but not necessarily the achievement of equal levels of protection. Clearly, in a ''second-best'' world, the United States and Canada are better off with reciprocal and substantial liberalization in both investment and financial services, even if the *sectoral* result is not symmetrical or balanced.

RESOLUTION OF BILATERAL AUTO TRADE PROBLEMS

Since the negotiation of the Automotive Products Trade Agreement of 1965 (the Auto Pact), which eliminated tariff barriers—subject to specific Canadian safeguards noted below—for bilateral trade for most products with the notable exception of tires, the United States and Canada have had a growing and prosperous auto trade. The Auto Pact promoted the rationalization and integration of the North American auto market. The resulting intraindustry specialization spurred a dramatic growth in bilateral trade from less than $1 billion in 1965 when the Auto Pact was signed to more than $45 billion in 1986 (see Wonnacott 1987b). The auto sector now comprises about one-third of bilateral merchandise trade, by far the largest component of bilateral trade.

Given the scope and size of bilateral trade in this sector, it is not surprising that autos have been the subject of numerous bilateral trade disputes. Indeed, a subsidy/countervail dispute prompted the negotiation of the Auto Pact almost 25 years ago. That accord again has come under pressure due to the establishment by non-North American companies of new assembly and auto parts plants, abetted in Canada by duty-remission subsidy schemes. While the FTA negotiators did not attempt to reopen the Auto Pact, they did try—and generally succeeded—in fixing many of the problems that have beset bilateral auto trade in recent years.

In particular, Canada agreed in the FTA to eliminate immediately its export-based duty-remission scheme and to phase-out its production-based scheme by the end of 1995, to remove its embargo on used cars within five years, and not to extend the benefits of the Auto Pact to new companies that have established assembly plants in Canada—essentially limiting the pact to the Big Three (General Motors, Ford, and Chrysler). The duty remission schemes encourage firms to produce in Canada *inter alia* by rebating Canadian import duties when production is exported. The schemes allow foreign assemblers in Canada to subsidize shipments to the United States and benefit from the duty-free access accorded by the Auto Pact (see Wonnacott 1987b). The FTA will remove the subsidies—albeit over time—that threatened to provoke a bitter countervailing duty case that could have wrecked the Auto Pact.

To date, the export-based duty-remission subsidies have not been very large. Potentially, however, they could have become quite troublesome as Japanese and other foreign subsidiaries in Canada began to take more advantage of the program by using the remissions to subsidize their exports to the United States. This threat has been preempted by the FTA. Furthermore, public information is not available on the extent of the production-based subsidies. The phase-out of this program pursuant to the FTA could possibly be of much greater significance (see Wonnacott 1988).

US parts suppliers and labor unions remain unhappy with the FTA, however. Their demands for increased protection against competition from overseas suppliers, which predate the FTA talks, were not fully satisfied. In particular these groups wanted to curb multilateral sourcing by the Big Three automakers, which they claim is costing jobs in the US parts industry. By maintaining the Canadian safeguards, under which duty-free access to the Canadian market depends on Canadian production and value added requirements, the FTA does not afford greater protection for the domestic parts industry.

However, the FTA does redefine the production base from which companies calculate the level of North American content required to qualify for bilateral duty-free trade. Although this "rule-of-origin" requirement remains at 50 percent, the change in the method of calculation effectively increases the amount of US and Canadian-sourced parts needed to meet the origin requirement. In short, the FTA encourages somewhat the use of North American parts. However, both the US and Canadian parts industries would prefer a 60 percent origin rule, which would provide them greater protection against imported parts.

Furthermore, these US groups fear that if global overcapacity in the auto industry forces a rationalization of North American production, then plant closings would be more likely in the United States than in Canada because of the safeguards, Canadian investment incentives, and the differential in the external tariff (applied to third-country trade) of the two countries—Canada's tariff is higher and would afford more protection. Some rationalization in the auto sector undoubtedly will occur, but the concerns about potential job losses relate primarily to the press of global competition rather than to the FTA provisions in the auto sector.

RESOLUTION OF SUBSIDY/COUNTERVAIL PROBLEMS

Disputes about subsidies and countervailing and antidumping duties have been a continual source of bilateral trade friction for decades. More recently, contentious antidumping (AD) and countervailing duty (CVD) cases such as those involving softwood lumber and potash have raised serious concerns in Canada about security of access to the US market.

Surprisingly, Canada has taken AD and CVD actions against bilateral trade much more frequently than the United States since the end of the Tokyo Round. The United States imposed CVDs against Canadian goods in 6 cases and ADs in 9 cases since 1980; Canada imposed 1 CVD (on corn) and 23 ADs. However, the trade affected by the US cases has been much greater (see Canadian Department of Finance 1988, p. 22).

The results of the FTA in these areas are mixed. As noted above, the subsidy problems of the Auto Pact were substantially fixed, but much less progress was made on developing new rules and discipline on subsidies and antidumping and countervailing duties in general. As a result, both countries maintain the right to resort to countervailing and antidumping duties under their national trade statutes to guard against injurious subsidies or predatory pricing practices.

Problems have occurred because many domestic subsidy programs fall into a gray area in the international trading rules where subsidies are permitted—but could trigger countervailing duties if goods benefiting from the subsidies are exported and injure the industry in the importing country. A negotiated solution involved two steps: agreeing on what types of domestic subsidy programs may be vulnerable to CVDs; and reducing or phasing out trade-distorting subsidies. Discipline on domestic subsidies and new rules on CVDs go hand in glove; progress on either is difficult without progress on both. The FTA negotiations sought to preempt future disputes by developing common policy guidelines for the treatment of specific national subsidy programs under each country's CVD law, but broke down on the inability to define domestic subsidies that could be actionable under CVD laws. The same problem plagued the Tokyo Round negotiators, and now confronts the Uruguay Round talks.

Unfortunately, most of the subsidy issues dealt with in the FTA could not be resolved in the bilateral context, because the political costs of removing the programs far outweighed the concessions that could be offered by the other country. Moreover, in some areas such as agriculture, discipline on US and Canadian subsidy practices would be ineffective in the absence of comparable reforms in Europe and Japan. Given the small size of most CVDs in bilateral cases, the FTA negotiators would have been better off to work out a *de minimus* rule for subsidies in bilateral CVD cases, as proposed last year by Paul Wonnacott (Wonnacott 1987a). Instead the FTA simply commits both countries to continue efforts to negotiate new disciplines in these areas over the next five to seven years, a time frame that can accommodate discussions in both bilateral and multilateral negotiating forums. The best hope for success, however, will be in Geneva in the Uruguay Round.

Does this mean the FTA failed in this area? Quite the contrary. While there may have been inflated expectations—as there always seem to be in subsidy negotiations—there were also some notable results. First, the FTA talks themselves should pave the way for a concerted joint effort by the United States and Canada in Geneva—while not reaching agreement for reasons noted above, the talks did bring about some convergence in the positions of both countries on prospective reforms of GATT rules. Second, the FTA did resolve the biggest sectoral subsidy problem affecting bilateral trade by phasing out auto subsidies.

Third, and perhaps most importantly, the FTA establishes an *ex post* procedure to resolve disputes about the consistency of final CVD orders with national laws and GATT obligations. Disputes on subsidy/CVD issues will be subject to binding arbitration. In theory, this should have no effect on the administration of the US CVD law because the procedure only applies as a surrogate for judicial review after the issuance of final orders. In practice, the disputes that arise under this procedure will probably occur in areas where national laws and GATT rules are vague, and need clarification.

As such, the most important impact of the bilateral subsidy/CVD dispute resolution procedure may be on the GATT negotiations. The FTA provisions relating to the resort to binding arbitration and surveillance of national trade policies could serve as models for important elements of an improved GATT dispute settlement system. Furthermore, clashes over CVD cases often lead to reforms of CVD rules, and the bilateral CVD dispute procedure could prove helpful in building a body of case law. For example, if the FTA procedures had been in place, the softwood lumber case would have been a perfect test case: the dispute revolved around differing interpretations of whether the Canadian stumpage payments constituted a "generally available" subsidy and of how to apply the "specificity" test under the GATT Subsidies Code rules. Rulings on such issues by a binational panel will help to define the gray areas of international rules on domestic subsidies that need to be clarified in the GATT talks.

SERVICES

In services, the FTA broke new ground by establishing firm contractual obligations on services for both countries. The FTA elaborates a framework of rights and obligations regarding national treatment, establishment, and licensing and certification procedures (see Schott and Smith 1988). Bilateral services transactions had been substantially unaffected by international discipline because of the lack of coverage of services in the GATT, the absence of a bilateral treaty of friendship, commerce, and navigation, and the extensive reservations to the OECD codes on invisibles and capital movements. The FTA promotes fair trade in services by *creating* a playing field and rules of the game.

The FTA is better on rulemaking than on liberalization; almost all existing restrictions are grandfathered. This is not a problem in the bilateral context, however, given the relative openness of services trade (compared to other markets) and the low number of bilateral disputes that have arisen in the past. Moreover, the negotiation of a "standstill" obligation, under which each country commits to refrain from new laws and regulations that discriminate against services provided by the other country, should forestall new protectionism in these sectors. The greater certainty of the rules of the game and the scope of regulatory policies should help businesses to take better advantage of new trading opportunities.

The FTA does promote liberalization in some areas, however. The most notable reforms are in financial services as noted above. In addition, the liberalization of temporary entry procedures will facilitate the provision of professional labor services across the US–Canada border. Finally, some liberalization will occur as a result of annexes on architecture, tourism, and computer- and telecommunications-network-based enhanced services that elaborate how particular rights and obligations will be applied. The aggregate impact of these provisions is quite small, however, particularly in comparison to the potential liberalization that could have resulted if agreements had been reached in other service sectors, especially transportation.

ADMINISTRATION AND DISPUTE SETTLEMENT

Despite the size and importance of the US–Canada economic relationship, the management of bilateral trade and investment issues usually has been accorded second-order priority by US officials. This was true even during the FTA negotiations up until the final weeks and in part explains the limited consultation with the Congress about the FTA itself. The implementation of the FTA should help remedy this neglect, for two reasons:

- the FTA itself establishes a new framework for bilateral economic relations and extensive new rights and obligations that will have to be monitored and enforced
- the consultative and dispute settlement procedures should help to preempt some disputes and more expeditiously resolve others.

The United States will have to devote more resources to the management of the bilateral relationship for two reasons. First, the FTA institutionalizes procedures for notification, consultation, and dispute resolution regarding measures affecting bilateral trade and investment. Second, because of the extensive rights and obligations of the FTA, the United States will have to monitor closely the implementation of the agreement to ensure that US rights under the FTA are safeguarded.

To this task, the FTA establishes a Canada–US Trade Commission, composed of the trade ministers of both countries and their representatives, to supervise the operation of the agreement and to resolve all disputes except those relating to subsidy/CVD and antidumping matters (noted above), and financial services (which will be handled through a separate consultative mechanism between the US Treasury and the Canadian Department of Finance). However, the administrative provisions of the FTA are not nearly as important as the dispute settlement procedures.

The FTA sets up two separate dispute mechanisms. One deals solely with subsidy/countervail problems as noted above; the other involves all other aspects of the FTA (see Horlick et al. 1988).

The general dispute settlement procedures serve two important functions. First, they provide a consultative forum to preempt potential disputes. When disputes do arise, the FTA sets out procedures to resolve them more expeditiously than currently available in the legal system of either country or in the GATT. The timetable for FTA dispute resolution is measured in months; by contrast, judicial appeals usually drag on for years. The GATT process is still prone to being blocked by disputants and by other delays, though some progress has been made in recent years to expedite settlements.

Second, the "early warning" consultations and the case law emerging from the decisions of binational panels should promote a convergence in national trade laws, particularly with regard to prospective changes in trade remedy laws. This should reduce the number of bilateral disputes and reinforce US and Canadian cooperation to achieve better GATT rules.

All this comes at very little cost to the United States. The FTA does not require the United States or Canada to make changes in the administration of national trade laws. It does, however, trigger consultations when trade measures or proposed changes in laws, regulations, or policies threaten to distort bilateral trade and investment flows and to impair the benefits derived under the FTA. In short, the procedures are designed to verify and secure the rights and obligations of the FTA.

PROMOTION OF MULTILATERAL COOPERATION

The FTA should provide a boost not only for bilateral trade relations, but for the world trading system as well. The systemic benefits derive from three main areas:

- The FTA helps to counter the protectionist drift of national trade policies and bolsters momentum for multilateral trade liberalization.

- FTA provisions contain many useful precedents for the Uruguay Round negotiations.

- The FTA reinforces the need for multilateral discipline in areas such as agriculture and subsidies.

If one subscribes to the bicycle theory of trade liberalization—which holds that momentum for trade reform must continually move forward else countries fall back to protectionism—then the reduction of trade barriers in the FTA should carry over and encourage trade reforms in the GATT talks as well. At a minimum, it should help to resist pressure for more protection in both countries. Indeed, the FTA is a reaffirmation of the open trade policy that underpins the GATT.

Second, the FTA provisions contain numerous innovations and useful models that could help negotiators work out multilateral agreements in the Uruguay Round (see Schott 1988). The chapters on services and investment are particularly important in this respect, as are some of the innovative approaches toward dispute settlement. The precedents set by the introduction of binding arbitration and surveillance of national trade policies could prove quite instructive for GATT negotiators grappling with the difficult task of reinforcing the GATT safeguards and dispute settlement systems. More work needs to be done in Geneva to bridge the gap between various national positions in these areas, but the FTA will help clarify the negotiating issues for the GATT as well as the negotiating objectives and positions of the United States and Canada.

Third, the FTA should redouble US and Canadian cooperative efforts to achieve a successful result in the Uruguay Round. Discipline on subsidies and agricultural programs—the biggest threats to the trade of both countries, though not necessarily to bilateral trade flows—remain unresolved and require the imposition of multilateral discipline that can only be negotiated in the GATT.

Some may argue, however, that the success of bilateralism reduces the value to both countries of the Uruguay Round negotiations. Given the lengthy duration of GATT talks, and the diluted influence of the United States over the outcome, the relative speed and success of the FTA negotiations could be seen as a reason to promote bilateralism instead of multilateralism. Indeed, Treasury Secretary James A. Baker comes close to supporting this view when he explicitly threatens to pursue trade liberalization among like-minded countries in a "market-liberalization club" if GATT talks bog down (see Baker 1988).

Such an approach might work well as a threat, but it would be a very costly policy to implement. Indeed, no one has shown how a comprehensive FTA on the model of the US–Canada agreement could be achieved with any other important trading partner.[14] Where past US efforts to open foreign markets have succeeded, they have resulted in special preferences for US suppliers to the detriment of other exporters. At times, US pressure has only resulted in a redistribution of import shares and not overall liberalization. Moreover, such efforts inevitably are imitated by other countries seeking their own special deals. In the end, such actions often result in market-sharing arrangements instead of market liberalization—an outcome that is clearly inferior to the maintenance of GATT for US trading interests.

Above all, however, both the United States and Canada need to build on the results of the FTA to support the GATT because of their weak trade and current account positions. Both countries will have to pursue export-led growth strategies in the coming years to restore their current accounts to equilibrium. To do so, they will need to expand exports beyond North America. While bilateral efforts to open markets could help if they are consistent with GATT, increased exports would be best promoted by multilateral liberalization under GATT auspices. In the end, this may be the most important reason for the United States not to turn protectionist and to pursue actively trade liberalization in the Uruguay Round.

7 *Conclusion*

Both the United States and Canada enter the FTA needing to bolster their external positions and to promote a stronger world trading system. Both will benefit from the expanded home base that the FTA provides to improve the competitiveness of their firms at home and abroad. The FTA contributes to that objective through significant trade reforms and through the establishment of a binational framework of rules that provide greater stability and predictability for trade and investment by both countries.

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[14] These issues will be analyzed in more detail in my forthcoming study, *More Free Trade Areas?* Washington: Institute for International Economics.

In each of the seven areas detailed above, the United States derives significant benefits from its participation in the FTA. Some may be disappointed that the FTA does not do more to curb subsidies; some may argue that their constituents have lost some protection and face adjustment pressures; and some may complain that many existing restrictions have been grandfathered under the agreement. But the sum of these disappointments does not outweigh the broad-based benefits that the United States will derive from the FTA.

Overall, the United States and Canada will profit significantly from the FTA, both through gains in efficiency and real income and through a strengthening of bilateral economic relations and the world trading system as a whole. The main results for the United States are summarized below.

First, the trade reforms in the FTA will spur growth in output and some minor employment gains. US exports will increase as a result of the elimination of tariffs, the opening up of additional government contracts to competitive bidding, and the liberalization of specific nontariff barriers. As importantly, the prohibition on trade-related performance requirements and other reforms in Canadian investment policy will allow US firms to take advantage of new opportunities in the Canadian market, particularly in the financial services sector. New contractual obligations on services and investment preclude the return to the more interventionist policies that sparked trade disputes in the past, and ensure that current Canadian policies evolve in the direction of nondiscrimination and liberalization.

Second, the FTA resolves many long-standing trade problems. It provides for the phase-out of subsidies in the auto sector under the Canadian duty-remission schemes, which had threatened to undermine the Auto Pact. The FTA also removes most border restraints and minimum price requirements on energy trade, and thus provides greater US security of access to Canadian energy resources whose availability and price in the past frequently were influenced by noncommercial considerations. In addition, the FTA removes important barriers to US exports of distilled spirits and wine.

Third, the FTA contains substantial systemic benefits for the United States. The FTA creates a much better framework for the conduct of bilateral economic relations in the future and for cooperative efforts to strengthen the GATT. The two-track dispute settlement procedures and the formation of the Canada–US Trade Commission should encourage closer consultations on bilateral problems, preempt the development of fractious trade disputes, and expedite the resolution of disputes that do occur. In particular, the provision for binding arbitration in CVD disputes should promote objectivity in the application of trade laws, removing a major source of discord in bilateral relations.

In addition, the FTA provides a big boost for GATT in two respects: the tariff cuts and other reforms maintain momentum for global trade liberalization; and the FTA provisions themselves contain many important implications for the negotiation of GATT accords. Aspects of the dispute settlement mechanisms—particularly recourse to binding arbitration and surveillance of national trade policies—as well as provisions of the services and investment chapters establish useful models for new GATT rules in these crucial areas in the Uruguay Round.

These systemic benefits for the United States are of utmost importance: the United States needs open access to foreign markets, as well as a more productive and competitive economy to take advantage of new trade opportunities, to help bring its current account back into balance. The FTA will support that effort by encouraging increased productivity in the US economy and by promoting a strong and effective multilateral trading system.

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THE CANADA-UNITED STATES FREE TRADE AGREEMENT

A Summary of Empirical Studies and An Industrial Profile of the Tariff Reductions

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Economic Discussion Paper 28
by Brian F. Shea

U.S. Department of Labor
Ann McLaughlin, Secretary

Bureau of International Labor Affairs
Eugene Lawson, Deputy Under Secretary

March, 1988

This report was prepared in the Office of International Economic Affairs, Division of Foreign Economic Research. The author is an international economist with the office. The views expressed within do not necessarily represent the official opinion or policy of the U.S. Department of Labor. The author is solely responsible for its contents.

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THE CANADA-UNITED STATES FREE TRADE AREA AGREEMENT

A Summary of Empirical Models and An Industrial Profile of the Tariff Reductions

March 1988

by

Brian F. Shea

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I

INTRODUCTION

The recently concluded negotiations between the U.S. and Canada concerning a free trade agreement represent a major trade initiative on the part of both countries. Recent trade disputes with Japan and the E.E.C. have tended to focus U.S. attention on those countries even though the U.S. engages in more trade with the Canadian province of Ontario than with Japan. In 1985, the United States purchased 78% of all Canadian exports, while Canada absorbed approximately 25% of all U.S. exports. Besides being each others' most important trading partner, the United States and Canada are also the world's largest two trading partners.

The Canada-U.S. Free Trade Agreement is an ambitious trade treaty made up of twenty-one chapters. Besides covering topics contained in previous multinational trade agreements (such as tariffs, quotas, and government procurement) this Agreement[1] has expanded the realm of trade negotiations by successfully including provisions covering trade in services, investment, and intellectual property. In addition to being a precedent setting trade agreement by covering these new areas, the Agreement would also mark the attainment of a goal sought after for over a century, i.e., Canada-U.S. bilateral free trade.

This report will focus on but one aspect of the many contained in the Agreement, namely, the elimination of all tariffs on bilateral trade. Chapter II reviews the work of several authors who have attempted to measure the effects of tariff-free trade between the U.S. and Canada. These studies were conducted prior to the completion of the negotiations, and therefore, do not reflect the Agreement's time-table for the tariff reductions. Chapter III deals directly with the staging issue by presenting the effects staging will have in terms of foregone tariff revenues, and the amount of trade affected in each stage. The presentation will be made in terms of 2-digit U.S. Standard Industrial Classification (SIC) industries. Finally, Chapter IV presents, for some broad U.S. industrial groupings, estimated employment impacts for immediate elimination of all tariffs. The estimates are not based on any model as detailed as those reviewed in Chapter II. The employment estimates are presented as an indication of which industries might experience relatively more expansion or contraction under the assumption of an immediate elimination of bilateral tariffs (in fact, over 92% of U.S. dutiable imports from Canada are to have tariff reductions staged over 5 or 10 years). In all cases, the employment impacts were found to be very small.

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[1] This paper will use "Agreement" as a shorthand for the Canada-U.S. Free Trade Agreement.

The current tenuous trade policy environment in the U.S. provided, in part, the impetus for Canadian participation in the negotiations. The rising U.S. concerns over its trade deficit has been perceived in Canada as a foreshadowing of the enactment of more restrictive measures in the U.S. against its major trade partners with large bilateral surpluses, such as Canada and Japan. Unless the Agreement can be enacted in a such way that it can be viewed as a success by both countries (i.e., as a "win-win" Agreement), a further exacerbation of trade issues will undoubtedly ensue at a cost to both the U.S. and Canada.

II

SURVEY OF U.S.-CANADA BILATERAL FREE TRADE MODELS

Introduction

Since international trade theory is unable to tell us _a priori_ what the welfare effects will be from a preferential bilateral trade arrangement, this section will present the results of some studies which have attempted to estimate the economic impacts of a bilateral Free Trade Area (FTA) between the U.S. and Canada. It is interesting to note at the outset that all of these studies found that an FTA would be beneficial to the U.S. and all but one found the same for Canada. A theme common to these studies is that free trade will force more adjustments on Canadian industry, and to some extent Canadian labor, than on U.S. industry and labor. This result has been anticipated by many economists since it is felt that Canadian tariffs and non-tariff barriers have indirectly supported oligopolistic marketing arrangements that have resulted in higher prices and profits.[1] This observation has led many FTA proponents to stress that while Canada may have more free-trade pain, she will also have more free-trade gain.

The studies reviewed here were all conducted previous to the completion of the Canada-U.S. Free Trade Agreement. Thus, they are not simulations of the economic consequences of the Agreement. What they do simulate is a bilateral free trade area between the U.S. and Canada, i.e., they attempt to quantify the economic impacts of the U.S. and Canada removing just the existing tariffs on their bilateral trade. Further, the models do not contain any dimension of time. Essentially the effects of the bilateral tariff removal are measured in these models as the difference between two different states of the world: one in which the economic actors have adjusted to life with tariffs, with one in which everyone has adjusted to life without tariffs. The time frame mentioned in what follows is the result of an author's judgement on the timing of the various economic adjustments, as well as assumptions employed in the model, e.g., if capital is assumed to be fixed then the model is estimating effects over the next couple years since the stock of capital does not change much in a year or two.

Generally, the desirability of a trade agreement will be judged by the resulting "welfare" effect. The welfare effect is a measure of how much better off a country, as a whole, has become. It is not a measure of the aggregate change in output. It can be thought of as follows. After a FTA takes effect, the price of many goods will change. If the changes result in U.S. consumers being able to buy more goods with the same income, the U.S. will be better off. Alternatively, if there had never been an FTA, the citizens could have been given a gift of money (by the government) to buy the same items. In either case, due to lower prices (from lowered tariffs) or due to more money (from the gift), the people are identically better off. The total size of the gift which makes the consumers as well off as the FTA, is referred to as the change in the country's welfare. In our example, with prices having fallen, the gift would be positive, and therefore, welfare would be said to have increased. Alternatively, if the FTA results in a rise of the average price level, then the welfare effect would be negative. In this case, the reduction in welfare from higher prices would be equivalent to a per capita tax.

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[1] See Wonnacott and Wonnacott (1967), pgs. 3-7.

Before turning to the summaries, it is important to note several important features which economic studies are unable to model. One of the intended results of the current trade agreement is to create a more stable business environment for exporters and importers. To this end, the Agreement contains a binational panel for dispute settlement in antidumping (AD) and countervailing duty (CVD) cases. The panel will review AD and CVD determinations to decide whether they are consistent with the law of the country that made the determination. By empowering the panel with the ability to send cases back for a corrected determination, it is hoped that the uncertainties associated with trade cases will be reduced. It is difficult to measure what benefits the dispute settlement mechanism will have, since it is uncertain how the panel will actually work. More over, quantifying the value of trade foregone due to fear of future trade actions essentially eludes estimation.

The United States has expressed strong interest in the liberalization of trade in services, both within the Canadian talks and the Uruguay GATT round. By successfully negotiating an Agreement which covers trade in services, the talks have set a prodigious precedent. This first-ever international agreement governing trade in service industries would require that all future U.S. and Canadian measures provide national treatment for the service providers of either country. The Agreement also provides for the right of establishment, the right to sell across U.S.-Canadian border, and greater transparency in regulations affecting the service sector.[2] The service sector is not only new to free trade discussions, it is relatively new to the body of trade literature as well. Data to support reliable analysis have, until recently, also been sketchy. Thus, none of the models considered here were able to include a service sector producing a tradable product.

Since the elimination of protection has the eventual effect of increasing the efficiency of those firms which remain competitive in the U.S. and Canada, such firms should be able to capitalize on this increased efficiency by expanding not just into each others' markets, but also into other foreign markets. However, even models that limit their purview to just tariffs and trade cannot be expected to capture detailed results between all possible trading partners. To the extent that a model gives an abbreviated treatment to the rest of the world, it is likely that the results underestimate the increase in total export volumes.

The models discussed here are also constructed at a fairly high level of industrial aggregation for each country (6 to 29 industrial sectors). Unfortunately, highly aggregated models tend to understate both the costs and benefits from forming a free trade area. On the one hand, the more a model groups together different industries, the more it will understate employment dislocation costs. To see this, assume that an FTA were to displace workers who manufacture motorcycle parts and expand employment opportunities in the aircraft equipment industry. A model with only one transportation equipment sector would mask the worker dislocations associated with this free trade adjustment. On the other hand, highly aggregated models underestimate the economic benefits of a FTA by under-representing the existing distortions caused by tariffs. The more that aggregation averages out tariffs, the less that tariffs appear to distort relative import prices. Since the benefits of an FTA are directly related to the size of the existing distortions, the benefits get understated.

On a more general note, with the Tokyo Round GATT tariff reductions essentially implemented,[3] the level of tariff protection between the U.S. and

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[2] Transportation services are not covered under the FTA due to impasses arising from existing differences in each country's law concerning maritime transportation, and Canada's de facto monopoly in air transportation.

[3] Full implementation will not occur until 1992; except for some further small reductions primarily on textiles and apparel products all reductions have already occurred.

Canada is already quite low. In view of this, it is not surprising that recent trade disputes between the U.S. and Canada have not centered around tariffs, but on the issues of subsidies and other nontariff barriers. With any move towards free trade, tariff reductions will be but one variable in the equation to balance benefits and costs to both countries, especially within particular industrial sectors. Thus, it is not surprising that tariff reductions did not dominate the negotiations on the Agreement. Free trade talks, as one set of authors point out, may be more about business stability and international political leverage than about neoclassical welfare effects of tariff changes.[4] This is not to say that tariffs are not important anymore, or that they do not really matter. They do. As one economist has remarked:[5]

> Since trade tends to flow through duty free holes, the amount of potential trade that does not take place in sectors where tariffs remain high in one or both countries is unknown, e.g., textiles, apparel, or telecommunication equipment. Tariffs do play, and will continue to play, an important role in any bilateral agreement reached between the U.S. and Canada.

Therefore, the economic effects of tariff elimination between the U.S. and Canada on the various industrial sectors do warrant empirical analysis.

U.S.-Canada Bilateral Free Trade Models

In a study done for the U.S. Department of Labor, Markusen and Wigle (1987) constructed a model with eight trading regions, including highly aggregated representations of the U.S. and Canada.[6] A distinguishing feature of their model is that the effects of a U.S.-Canada free trade area include impacts on firm size in Canadian manufacturing. Traded goods are also differentiated by country of origin as well as by their physical characteristics. In this way, Canadian manufactured products are treated as qualitatively different from those of U.S. or Japanese manufactures. As a result of a bilateral FTA, their model indicates that both countries would experience a positive, though very small increase in welfare.[7]

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[4] Markusen and Wigle (1987).

[5] Morici (1985).

[6] Their model contains the following eight trading regions: the U.S., Canada, Japan, the EEC, Newly Industrialized Countries, Less Developed Countries, and Other Developed Countries. In turn each of these regions has six sectors: Agriculture and Food, Mineral Products and Extracting Ores, Energy Products, Non-Mechanical Manufacturing, Machinery and Transport Equipment, and Construction, Services, and Other Non-Traded.

Both countries were found to experience increased trade volumes with bilateral flows being surprisingly balanced. There was also no indication that trade liberalization would result in any sector in either country being swamped by imports. However, the results did prove sensitive to certain assumptions concerning the Canadian manufacturing industries. The two manufacturing industries (Non-Mechanical Manufacturing & Machinery and Transport Equipment) are modeled as having unexploited economies of scale. Not surprisingly, the more it is assumed that Canadian tariffs are responsible for smaller Canadian firm size than would be the case with free trade, the more both countries (especially Canada) have to gain by moving to free trade.

As a result of moving to bilateral, duty-free trade, trade volumes are found to increase significantly for some sectors even though the current average levels of protection between the two countries are not very high. When only tariffs were removed (i.e., leaving in place all other barriers to trade), Canadian imports from the U.S. increased 9.6%, and U.S. imports from Canada rose 8.4%. When simulating the additional removal of several key nontrade barriers[8], the increases in imports were 16.7% and 15.5% respectively. Even so, the accompanying sectoral production changes were quite small (less than ±1% for the U.S.). This occurs since the initial level of any sector's exports relative to its total production is quite small. Thus, a large percentage change in exports may be accomodated by a small percentage change in output. If bilateral tariffs were reduced to zero immediately, it is the authors' view that these increases could be realized in two to three years.

Due to the small changes in the respective levels of domestic production, labor dislocation and adjustment costs associated with the free trade area were found to be very small in the short run. Therefore, there is no expected near-term increase in the rate of unemployment. In the longer run (approximately five to ten years), after complete adjustment to free trade, the model predicts that real wages in each country will increase slightly, .5% for Canada and .1% for the U.S.

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[7] Measured as a percentage of GNP in 1977 (the base year of the model), the increases were .08% for the U.S. and 1% for Canada.

[8] The NTBs considered are: quantitative restrictions on textiles and steel, relaxing government procurement policies, and NTBs on Non-Mechanical Manufactures. The NTBs were modeled as affecting trade in the same way as a tariff of 7.5% imposed by both the U.S. and Canada on each of these sectors. All Agriculture NTBs were assumed to remain in effect.

An issue of particular concern to Canada is the effect a free trade area will have on the level of U.S. investment in Canada. To the extent that Canadian duties have resulted in U.S. companies jumping the trade barriers and setting up operations in Canada, it is feared by some Canadians that a FTA would precipitate U.S. disinvestment. In a simulation where only tariffs were removed, Markusen and Wigle found no evidence of any change in the level of U.S. foreign investment in Canada. On the other hand, in a simulation designed to show the effect of additionally removing the previously mentioned NTBs, the U.S. was found to repatriate about 6% of its Canadian capital holdings.

It is interesting to note the effects on each country's imports from third countries. As a consequence of trade liberalization between the U.S. and Canada, the U.S. is likely to import slightly more from third countries, while Canada is likely to import less. The latter effect is due to Canadian cost reductions induced by trade liberalization. This reduction in production costs gets passed on to Canadian consumers in the form of lower domestic prices. As a result, Canadian consumers purchase fewer imports. For the U.S., both the volume of exports to Canada and total export volume increases. Unfortunately, the current version of the model does not allow the impact on the trade deficit to be determined. In any event, Markusen and Wigle do not find any evidence that the U.S. and Canada would become a "fortress North America" as feared by the EEC and Japan.

While recognizing that the quantification of various NTBs is anything but precise, the authors attempted to estimate the effects of a trade agreement which includes coverage of the agriculture sector. The extension of liberalization to agricultural barriers resulted in nearly doubled bilateral trade flows. Also, welfare gains increased by almost 15% for Canada and 25% for the U.S. As the authors point out, even for countries as similar as the U.S. and Canada, the U.S. policy position that agricultural barriers are a severe source of trade distortion, still holds true.

Brown and Stern (1987) construct a four-region computational model that differs in a number of ways from the model of Markusen and Wigle.[9] One difference is that the results of the Brown and Stern model, known as the Michigan Model of World Production and Trade (MWT), indicate that bilateral tariff elimination between the U.S. and Canada increases U.S. welfare, but decreases Canadian welfare.

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[9] The four regions are: Canada, the U.S., and a group of 32 other countries modeled explicitly, and an abbreviated region modeled as the rest of world. Each region has 22 tradable, and 7 non-tradable sectors.

In order to focus the model's attention on the distributional effects likely to occur in two to three years following an across-the-board tariff removal, the authors make the following assumptions. First, the exchange rate adjusts to keep the value of the changes in exports equal to the changes in imports that occur as a result of the free trade area. This, it will be seen, turns out to be a very important assumption. Second, the nominal wage paid to labor is fixed and macroeconomic policy is assumed to maintain national employment at a fixed level, i.e., policies are designed to prevent any changes in aggregate employment as a consequence of trade liberalization. Third, it is assumed that capital cannot move from sector to sector, but may move between the U.S. and Canada within the same industrial sector. For example, capital can only move from the U.S. metals industry to the Canadian metals industry, or vice versa. Last, all industries are assumed to exhibit constant returns to scale. In constrast to the Markusen and Wigle study, there can be no gains to Canada resulting from an industry achieving a more efficient scale of production.

Removal of the comparatively higher level of tariff protection on Canadian industries induces Canadian consumers to purchase more U.S. manufactured goods. In order for the change in exports to equal the change in imports, the relative price of Canadian goods must be lowered; thus, a depreciation of the Canadian dollar is required. The size of the depreciation turns out to be large enough to result in a loss of purchasing power for Canadian consumers. The final result is that the FTA lowers Canadian welfare. This occurs whether the model starts with pre-Tokyo Round or post-Tokyo Round tariff rates. The results of Stern and Brown's simulations also show the largest capital outflows (as a percentage of initial capital stock) for Canada to be in metal products (-1.44%) and chemicals (-1.03%), and the largest inflows in nonferrous metals (2.37%) and transport equipment (1.86%). The U.S. experiences a small capital outflow only in transport equipment (-.24%) with no sector experiencing a capital inflow of more than .27%.

For the U.S., the sectoral production and employment impacts were small (the largest was a .31% employment increase for textiles), while those in

Canada were more substantial in both relative and absolute terms. For both countries, the implication for employment is a shift in favor of the traded goods sectors over the nontraded goods sectors. This shift follows from the relative price changes induced by the bilateral tariff cuts. While the results suggest that some employment adjustments are likely, especially in the Canadian metal products (1.57% employment decrease) and petroleum products (4.68% employment increase) sectors, the employment effects could be moderated if free trade were phased in over a period of years, as is the case with the Agreement, rather than their simulated across-the-board tariff elimination.

Both of the above models are computational general equilibrium (CGE) models, which is to say that all of the various economic relationships between countries and sectors are given precise mathematical formulation, and a computer is needed to solve for the equilibrium values of all the variables. In contrast to these highly sophisticated econometric models, Wonnacott and Wonnacott (1967) employed more qualitative methodology to study the impacts of a U.S.-Canada FTA. The authors approach the issue of adjustment as an interregional location study in which the inherent cost advantages (labor, capital, transport, etc.) and desirable location characteristics (proximity to markets and suppliers, established infrastructures in present areas of industrial concentration, etc.) of each region are used by the authors to determine the the effects a free trade area. All cost differences due to protection are ignored. Even though the results of this study are dated, it nevertheless provides a useful reference because of its comprehensive and thorough treatment of the subject matter.

Wonnacott and Wonnacott find that Canadian tariff and other non-tariff barriers have kept prices for all Canadian industrial goods significantly higher than they would otherwise be. This protection has had effects on the size of Canadian firms, the level of managerial efficiency necessary to survive, and the level of oligopolistic opportunities offered by the protected market. The result is that the burden of adjustment from an FTA would fall predominantly on the owners of production facilities in Canada. The authors conclude that the probable economic consequences are desirable for both countries, particularly for Canada which could reap the gains of an increased level of production of up to 10% of Canadian GNP. In light of changes which have occurred in the rates of protection, and other nontariff barriers since the late 1960s, Paul Wonnacott has revised the Canadian figure to less than 10%, and the U.S. figure to less than 1%.[1]

The authors point out that the free trade adjustment process would require an extra measure of understanding on the part of Canadian labor on the need for major short-run changes. The study makes special mention of the role that government adjustment assistance could play and also notes that it would be "disastrous for the process of adjustment if Canadian unions were to take the long-run advantages of free trade as the basis for immediate insistence on wage parity with the United States."

One serious problem economists often encounter in analyzing trade policy initiatives, like an FTA, is the lack of relevant historical comparisons. While the U.S. has not previously entered into a bilateral FTA with a country comparable to Canada, it does have in place an FTA with Israel. The U.S.-Israeli FTA began in 1985, and all tariffs and some nontariff barriers will be eliminated by 1995. Although it is still too early to tell the full economic impact of this FTA, one can make comparisons between bilateral free trade models of the U.S. and Israel with those of the U.S. and Canada, for the purpose of seeing what, if any, insights can be gained on the relationship between economic structure and the types of adjustment a country faces with a bilateral FTA.

A study recently completed for the U.S. Department of Labor is particularly well suited for this exercise. As part of a paper estimating the economic effects of the 1985 FTA between the U.S. and Israel, Drusilla Brown (1987) compared the results to a bilateral FTA between the U.S. and Canada. In both cases, a modified version of the Michigan Model of World Production and Trade (MWT) was used. In each case, only the effects of removing tariffs were analyzed.

On a trade-weighted basis, both Canada and Israel maintain higher tariffs than the U.S. After the Tokyo Round tariff reductions are fully implemented, Canada's tariffs on U.S. goods will average 3.8%, while Israel's will average 4.3%. In contrast, U.S. tariffs on Canadian goods will average less than 1.0%, and 1.6% on Israeli goods. Although both Canada and Israel benefit from most favored nation (MFN) tariff treatment by the U.S., the U.S. average tariff on Israeli goods is higher than on Canadian goods because Israel tends to export more products facing high U.S. duties than does Canada. Compared to Canada, Israel exports to the U.S. more textiles, clothing, and footwear, which face relatively high U.S. tariffs. Unlike Israel, Canadian exports are heavily concentrated in products which use natural resources (such as wood and petroleum products) on which U.S. tariffs are virtually zero.

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[1] Paul Wonnacott (1987), pgs. 30-45.

Comparing the overall results from the two FTAs, Brown found that in terms of welfare changes, each free trade area was beneficial to the U.S. but detrimental to both Israel and Canada. In the Israeli free trade area (IFTA), the U.S. would benefit more than Israel would lose, and so on balance, the IFTA improves the net welfare of the two countries. However, in the Canada Free Trade Area (CFTA) simulation, the loss in Canadian welfare was larger than the increase in U.S. welfare. On balance then, the CFTA trade initiative would lower the net welfare of the two partners.

With the relatively steep tariff reductions by Canada and Israel, Canadian and Israeli demand for U.S. goods increases. However, in order to focus attention on the near term economic adjustments, the MWT keeps the value of the induced changes in imports and exports equal (i.e., no change in the merchandise trade account as a result of the Agreement). This balance is achieved by adjustments in the exchange rate. With demand shifting towards U.S. goods, the U.S. dollar appreciates .90% against the Canadian dollar, and by .77% against the Israeli shekel. Actually, these currency movements affect the U.S. price of Canadian and Israeli goods more than the changes in the U.S. tariffs, and turn out to be more important in determining which Israeli and Canadian industries experience production expansions. In fact, there would likely be a mix of changes in the exchange rate and the current account. Since there is currently no accepted method to estimate the the mix, Brown assumes that only the exchange rate adjusts. It is her belief that such an assumption will focus the results on the near-term adjustments to a free trade area.

The results from both FTA simulations show that intra-industry trade between countries increases (i.e., for a given industrial sector, the level of exports to the other country). The CFTA would be strongly characterized by intra-industry trade in manufactured goods, which reflects the similar resource endowments of the U.S. and Canada. The specialization which does occur is found in Canadian exports of petroleum and nonferrous metals products in exchange for some U.S. semi-manufactured goods.

The pattern of trade resulting from the IFTA is likely to differ somewhat from that of the CFTA due to the greater dissimilarity of endowments between the U.S. and Israel. The resulting production changes reflect the shortage of low cost labor in the U.S. relative to Israel (Israeli hourly compensation for production workers runs about 34% that of the U.S.). This can be seen in the unilateral increase in Israeli exports of clothing, leather products, food, and nonferrous metals. The resulting pattern of U.S.-Israeli trade also reflects the U.S.'s relative abundance of natural resources and capital through the increase in U.S. exports of heavy manufactured goods and forestry products.

Changes in bilateral trade, however, can give a misleading indication of the degree of specialization. The total change in production levels should be examined in order to see what patterns of production specialization are likely to occur. On this basis, a striking feature of the CFTA is that half of the 22 product categories experience production increase in both countries, although in percentage terms, the U.S. production increases turn out to be trivial. In contrast, production increases in both the U.S. and Israel occur in only one product category, textiles. So it appears that sectoral specialization is much more likely under the IFTA.

Conclusions

The studies summarized above do not purport to give insights into all the various economic adjustments resulting from a U.S.-Canada free trade area; rather, each study embodies a different set of assumptions in order to focus on particular issues. Although each of the studies appear to address the question, 'What are the economic effects from bilateral free trade between the U.S. and Canada?', each actually answers the question with different qualifications: Markusen and Wigle answer the question by assuming Canadian manufacturing is currently at an inefficient scale of operations, Brown and Stern assume that the governments will adjust fiscal policy to keep aggregate employment unchanged, and Wonnacott and Wonnacott assume all barriers to trade and investments are eliminated. It is only by examining the results in the context of how the question is posed, that allows reasonable insights and conclusions to be drawn. With that in mind, the following conclusions are offered:

- Because of relatively higher tariffs, Canada faces relatively more adjustment to a free trade environment than the U.S. The more that tariffs and other trade barriers covered by the Agreement have allowed Canadian industry to operate at a less than efficient scale of operation, the more Canada has to gain. In other words, Canada potentially has more to gain from the Agreement, but has potentially more pain to bear as well.

- Bilateral trade volumes are likely to increase across a variety of industrial sectors. Thus, bilateral tariff eliminations will strengthen and increase the importance of each country in one another's overall trade performance.

- Any labor dislocations which result from the Agreement are likely to be kept to a minimum by staging the tariff cuts. On the other hand, real wages are likely to rise in each country due to the positive effect the elimination of tariffs will have on the allocation of resources. Since adjustment costs are incurred only once, while the benefits from increased production efficiency are recurrent, it is likely that labor in both countries will be better off.

III

THE AGREEMENT'S TARIFF ELIMINATION PROVISIONS

Article 401 of the Canada-U.S. Free Trade Agreement provides for the elimination of all bilateral tariffs by January 1, 1998, according to three different schedules. This section will discuss how U.S. and Canadian dutiable imports and tariff revenues are likely to be affected by the proposed schedules. The purpose is to highlight differences and similarities in the structure and timing of the tariff cuts in a framework which is more accessible than Annex 401.2 of the Agreement (which contains thousands of tariff items). The presentation will be in terms of the U.S. Standard Industrial Classification (SIC) nomenclature[4], and data for 1985 will be used since it was the reference year used by the negotiators in designing the staging of the tariff cuts.

Annex 401.2 of the Agreement assigns each U.S. and Canadian dutiable import item to one of three possible tariff elimination categories. Items assigned to Category A will be traded duty-free effective January 1, 1989. Category B items will undergo five equal annual reductions in tariffs so that they will be duty-free effective January 1, 1993. Finally, those items assigned to Category C will be subject to ten equal annual reductions so as to be duty free effective January 1, 1998. Hereafter, this report will refer to categories A, B, and C, as Immediate, 5-year, and 10-year, respectively. The industrial structure of bilateral dutiable trade and duties collected will be presented in terms of these three categories.

Before turning to the specifics of Article 401, it is important to keep in mind that much of U.S.-Canada bilateral trade is currently conducted on a duty-free basis. In fact, 72.2% of all goods the U.S. imported from Canada entered duty-free in 1985. In Figure 1, total U.S. imports from Canada are broken into three duty status categories: MFN Free refers to those items which are bound duty free as a result of GATT tariff negotiations, APTA refers to additional duty-free items specified in the Canada-U.S. Automotive Products Trade Agreement, and Dutiable refers to items subject to U.S. duty. The Dutiable category is further broken out into Crude Dutiable (crude petroleum and gas dutiable imports: SIC 13), and Other Dutiable imports. This was done to highlight the large share which crude petroleum comprises with an extremely small tariff (expressed as an AVE) of 0.3% from Canada. In 1985, crude petroleum accounted for approximately one-quarter of all U.S. dutiable imports from Canada. Crude petroleum also accounts for 40% of the U.S. dutiable imports from Canada assigned to the 5-Year staging category. The tariff reduction provisions of the Canada-U.S. Free Trade Agreement will therefore only directly affect 27.8% of current U.S. imports. On the export side, the Canadian tariff reductions will directly affect 25% of the goods the U.S. sends to Canada.

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[4] All of the figures presented in this section are expressed in 1985 U.S. dollars. The Canadian import data used in this section are the Harmonized System dutiable import data provided by Statistics Canada. For details on the assignment of U.S. and Canadian 8-digit Harmonized System tariff items to an SIC group, please contact the author. All data are as of March 1988. All figures on U.S. duties are based upon the United States International Trade Commission's work on AVEs for the Harmonized System. Such AVEs are based upon the final-staged Tokyo Round tariff reductions. The Canadian data are subject to further revision.

To keep the presentation manageable, much of the discussion which follows will focus on the ten largest two-digit SIC industries as determined by 1985 dutiable imports and duty revenues. A more comprehensive discussion of the industries can be found in appendices A and B. Appendix A presents the bilateral trade flows in the context of employment profiles for the two-digit SIC manufacturing industries. Appendix B contains the impacts of the tariff staging for all two-digit SIC industries, with a special three-digit break out for primary metals (SIC 33) and transportation (SIC 37).

In 1985, Canada imported $13.5 billion in goods subject to duty from the U.S. and collected an estimated $1.3 billion in duties on those imports. The U.S. imported $19 billion in dutiable imports from Canada on which an estimated $613 million in duties were collected. As a result of moving to duty-free trade, Canada will therefore forgo twice the tariff revenues of the U.S. Also, Canadian consumers are more likely to experience a more noticeable price change on imports than consumers in the U.S. since the average rate of duty on imports from the other partner is higher in Canada (9.9%) than in the U.S. (3.2%). Thus, Canada stands both to lose more (in terms of duties forgone) and gain more (in terms of lower prices) than the U.S. from the tariff reductions.

In Table 1-A, the dutiable value of Canadian imports from the U.S. are ranked by value on a two-digit SIC basis. The dutiable value of U.S. imports from Canada are similarly ranked in Table 1-B. The first column of each table lists the 1985 value of dutiable imports by SIC code. The next three columns indicate how that value is distributed (in percentage terms) across the three tariff reduction categories. Finally, the last column, labeled 'Cumulative Value', is the cumulative sum of the dutiable imports expressed as a percentage of total dutiable imports. For example, the entry of 50% in line four of Table 1-A means that the top-four Canadian dutiable import groups (SICs 35, 36, 28, and 34) represented 50% of the total dutiable imports from the U.S.

The tables reveal that bilateral dutiable trade between the U.S. and Canada is dominated by manufactured goods (SICs 20 through 39). Dutiable manufactured goods comprise 71.5% of the U.S. imports from Canada, while manufactured goods account for almost all (95%) of the Canadian dutiable imports from the U.S.

For each country, the top-ten SIC categories combine to represent approximately 83% of the total dutiable value. For Canada, all ten are manufactured products. The U.S. top-ten contain one nonmanufacturing group, Crude Petroleum and Gas (SIC 13), which represents 23% of all dutiable U.S. imports from Canada. A comparison of the two top-ten lists reveals that eight SIC groups appear on each list. The two SIC groups not common to both lists are Instruments and Related Products (SIC 38) and Paper and Allied Products (SIC 26) for Canada, and Crude Petroleum and Gas (SIC 13) and Refined Petroleum (SIC 29) for the U.S. For the U.S., the two groups reflect the relatively larger U.S. demand for an expensive natural resource in which Canada happens to be resource abundant. It is also worth pointing out that for the U.S., imports of Petroleum related goods (SIC 13 & 29) account for 32% of all dutiable imports from Canada.

Before turning to the industrial composition of the tariff elimination categories, we will examine how the value of dutiable imports is distributed across the three tariff reduction categories. This information is shown for Canada in Figure 2-A and the U.S. in Figure 2-B. For the U.S., the 5-year category is the single largest slice comprising 58.1% of current dutiable imports; whereas the 10-year category contains the single largest slice (53.4%) of Canada's dutiable imports. Thus by 1994, 65% of current dutiable imports from Canada will enter the U.S. duty free, but only 46.6% of current U.S. exports to Canada will enter duty free. On the other hand, Canada will allow almost twice as much (in percentage terms) of its currently dutiable trade go duty-free immediately (13%), than will the U.S. (7.0%).

Duties collected by two-digit SIC industry are shown for Canada in Table 2-A and for the U.S. in Table 2-B. Not surprisingly, the manufacturing sectors account for almost all of the calculated duties: 96.5% of all duties collected by Canada and 90.4% for the U.S. The top-ten most heavily dutied are for the most part the same industrial groups as the top-ten of dutiable imports. In fact, there are still eight groups common to each country's top-ten (except for Instruments, the overlap is the same as mentioned above).

A comparison of the top dutiable import groups with the top duty revenue groups for each country reveals some differences in current commercial policy. Although the U.S. imports a lot of natural resource products from Canada, these items are subject to relatively low tariffs. On the other hand, while Apparel (SIC 23) and Instruments (SIC 38) may not be important dutiable import items, their relatively high rates of protection make them important tariff revenue groups. A similar comparison for Canada shows large amounts of Paper and Allied Products (SIC 26) and Primary Metals (SIC 33) entering Canada subject to low tariffs, while high rates of duty make Textiles (SIC 22) and a group of goods for which Canada has yet to assign an Harmonized System (HS) classification (SIC 00)[2], important tariff revenue groups. This last group was ranked 11th in terms of value of dutiable imports and is 10th in terms of duties.

As displayed in Figures 3-A and 3-B, the U.S. will forgo a slightly higher percentage of its duty revenues over the first five years of the Agreement than will Canada. For both countries, the bulk of the tariff revenues to be forgone are staged in over a ten year period (49.3% of the duties for the U.S. and 60.3% for Canada). On a dollar basis however, Canada will forgo more than the U.S. in each tariff reduction category because it has twice the duties to forego.

Figure 4-B shows how U.S. dutiable imports within each of the top-ten categories are classified according to the various staging categories. Five groups face tariff elimination staged in predominately over 5 years, while the remaining five face tariff elimination mostly over a 10-year period. Figure 4-A indicates that Canada has essentially the same staging profile as the U.S. for its top-ten dutiable import groups: six are predominately subject to reductions over 10 years, while the remaining four have 5-year plans affecting at least 50% of the dutiable imports.

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[2] See Appendix A for details on the data provided by the Canadians.

It is interesting to note from Figures 4-A and 4-B that the five categories on which the U.S. has agreed to cut tariffs over ten years are also on Canada's top-ten list, and are also subject to a predominately ten year staging. These 'big five of the ten-year plan' are: Food (SIC 20), Rubber Products (SIC 30), Primary Metals (SIC 33), Fabricated Metals (SIC 34), and Transportation Equipment (SIC 37).

Overall, it can be seen that both countries have opted to assign tariff reductions to the 5 and 10-year periods for the bulk of their bilateral imports (recall that the top-ten lists account for approximately 83% of dutiable imports for both countries). Canada has tended more towards the 10-year staging than the U.S., while both partners have assigned small amounts to immediate duty-free status. Perhaps the most noteworthy exception, is that Canada has assigned 38.6% of its machinery imports (SIC 35) to the immediate group. This is a sizeable amount of dutiable trade since Canadian dutiable imports of U.S. machinery represents 21% of all dutiable imports from the U.S.

Figures 5-A and 5-B show the impact the tariff reductions will have on the duties each county currently collects. Specifically, the figures show over what time horizons each country will forgo its collected duties on their top-ten revenue groups. The top-ten account for 78% of collected duties for the U.S. and 81% for Canada. Even a quick viewing of the two figures indicates that most of these tariff revenues are to be forgone over a ten-year period. This is somewhat in contrast to the distributions based on dutiable imports (Figures 4-A and 4-B) where the split between the 5-year and 10-year groups was not quite as marked. It is interesting to see that both countries have essentially assigned their respective top-three revenue groups the 5-year category. In fact the top-three of each country account for almost all of the 5-year staging contained in Figures 5-A and 5-B.

Since both countries are highly developed economies, the negotiators did not have two diverse lists of industries to be traded off against each other. The symmetries between the U.S. and Canadian profiles which are apparent at the two-digit SIC level indicate that the tariff negotiations were able to accomplish the goal of "equal treatment". It does not appear that either country gave concessional staging cuts in one industry to get different industrial concessions from the other country. As the figures display, a balanced staging arrangement did result.

FIGURE 1

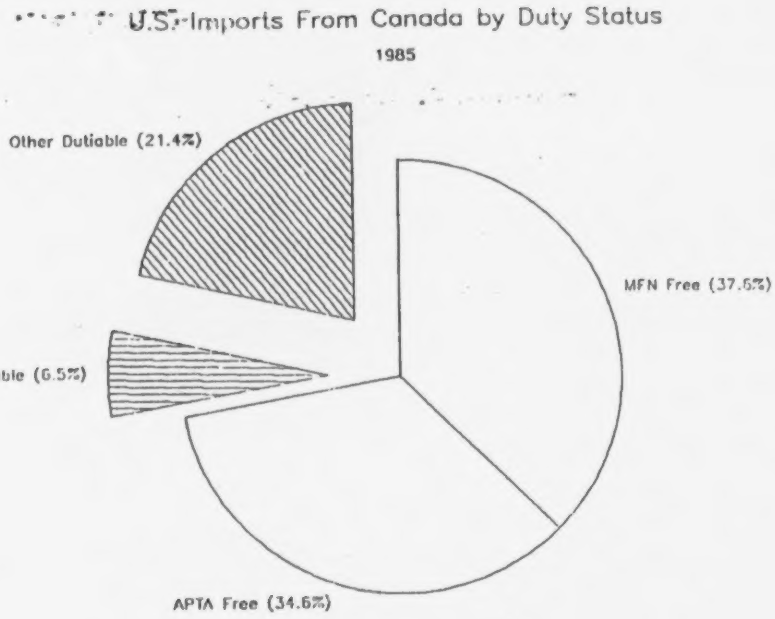
U.S. Imports From Canada by Duty Status
1985
Other Dutiable (21.4%)
MFN Free (37.5%)
Crude Dutiable (6.5%)
APTA Free (34.6%)

TABLE 1-A

Canadian Dutiable Imports from the U.S. by FTA Staging Class

Ranked by 1985 Value

SIC	Dutiable Value (mil $)	*Staging Class Distribution:* (percent of Dutiable Value)			Cumulati Value (% of Total)
		Immediate	5-Year	10-Year	
35 Machinery..............	2,838	38.6	52.6	8.8	21
36 Electrical Machinery...	1,661	0.2	34.9	64.9	33
28 Chemicals..............	1,283	0.3	71.1	28.6	43
34 Fabricated Metals......	1,013	0.2	22.0	77.8	50
37 Transportation Equip...	943	6.0	8.7	85.3	57
38 Instruments............	829	48.9	12.1	39.0	63
30 Rubber.................	741	0.1	16.6	83.3	69
33 Primary Metals.........	724	18.1	5.7	76.2	74
20 Food Products..........	701	2.8	11.7	85.5	79
26 Paper..................	513	0.0	87.0	13.0	83
00 Unspecified............	454	0.5	9.8	89.7	86
22 Textiles...............	410	0.0	0.0	100.0	89
32 Stone, Clay, & Glass...	289	1.6	42.4	56.0	92
39 Misc Manufacturing.....	271	3.8	8.8	87.4	94
01 Agricultural Crops.....	158	0.0	0.0	100.0	95
25 Furniture..............	128	0.0	100.0	0.0	96
23 Apparel................	123	1.8	0.0	98.2	97
24 Wood Products..........	112	0.0	25.8	74.2	97
29 Refined Petroleum......	86	0.0	41.8	58.2	98
27 Printing & Publishing..	75	0.0	38.3	61.7	99
02 Livestock..............	70	0.0	53.3	46.7	99
31 Leather................	68	23.3	9.4	67.3	100
14 Nonmetallic Minerals...	15	22.5	76.7	0.8	100
09 Fish Products..........	9	1.1	0.0	98.9	100
21 Tobacco................	9	0.0	0.0	100.0	100
08 Forestry...............	1	0.0	0.0	100.0	100
91 Scrap & Waste..........	1	0.0	10.8	89.2	100
13 Crude Petroleum & Gas..	1	0.0	100.0	0.0	100
Total, all Commodities....	13,540	13.0	33.6	53.4	

TABLE 1-B

U.S. Dutiable Imports from Canada by FTA Staging Class

Ranked by 1985 Value

SIC	Dutiable Value (mil $)	*Staging Class Distribution:* (percent of Dutiable Value)			Cumulative Value (% of Total)
		Immediate	5-Year	10-Year	
13 Crude Petroleum & Gas..	4,429	0.0	100.0	0.0	23
35 Machinery..............	2,142	20.6	70.5	8.8	34
33 Primary Metals.........	2,007	1.6	13.2	85.3	45
29 Refined Petroleum......	1,610	0.3	99.7	0.0	53
36 Electrical Machinery...	1,441	6.8	55.0	38.2	61
20 Food Products..........	956	31.2	2.6	66.2	66
30 Rubber.................	863	0.0	0.0	100.0	71
34 Fabricated Metals......	792	0.3	16.0	83.7	75
28 Chemicals..............	790	3.1	82.7	14.3	79
37 Transportation Equip...	724	2.6	14.6	82.8	83
38 Instruments............	438	10.8	20.1	69.1	85
25 Furniture & Fixtures...	437	0.0	99.9	0.1	87
26 Paper..................	341	0.0	76.1	23.9	89
24 Wood Products..........	266	0.2	69.2	30.6	90
32 Stone, Clay, & Glass...	258	11.0	21.1	67.5	92
09 Fish Products..........	249	5.0	78.7	16.3	93
23 Apparel................	238	40.2	0.0	59.8	94
01 Agricultural Crops.....	186	0.6	1.4	98.0	95
02 Livestock..............	181	0.2	91.2	8.6	96
99 Misc. Commodities......	179	10.7	51.5	37.8	97
98 U.S. Returned Goods....	140	100.0	0.0	0.0	98
39 Misc Manufacturing.....	131	19.2	10.0	70.8	99
31 Leather................	83	19.2	17.8	63.0	99
22 Textiles...............	62	0.0	0.0	100.0	99
27 Printing & Publishing..	50	16.3	83.5	0.2	99
10 Metal Mining...........	36	30.6	1.6	67.7	99
14 Nonmetallic Minerals...	16	54.2	45.8	0.0	99
21 Tobacco................	4	0.0	0.0	100.0	99
91 Scrap & Waste..........	3	77.3	13.8	8.9	100
Total, all Commodities....	19,056	7.0	58.1	34.9	

FIGURE 2-A

Canadian Dutiable Imports from the U.S.

by FTA Staging Class, 1985

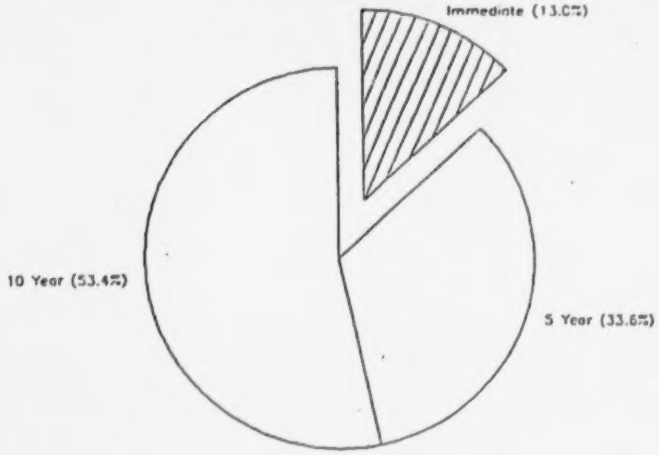

FIGURE 2-B

U.S. Dutiable Imports from Canada

by FTA Staging Class, 1985

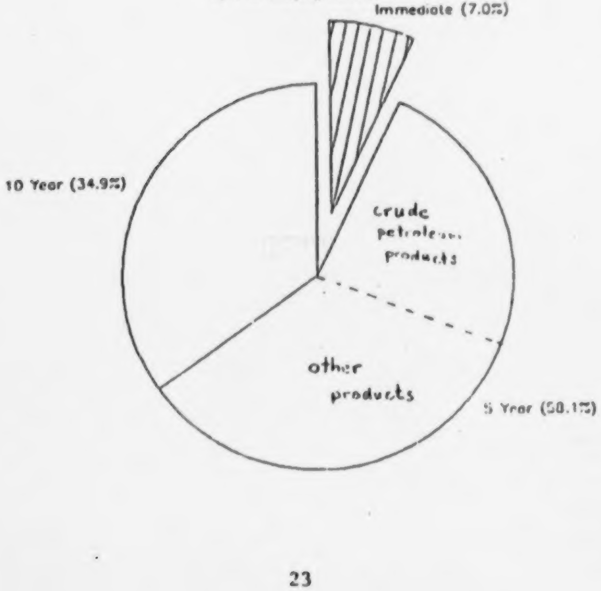

TABLE 2-A

Canadian Calculated Duties Collected on Imports from the U.S.

Ranked by 1985 Value

SIC	Calculated Duties (mil $)	*Staging Class Distribution:* (pct. of Calculated Duties)			Cumulative Value (I of Total)
		Immediate	5-Year	10-Year	
35 Machinery	209	2.4	66.2	11.4	16
36 Electrical Machinery	172	0.1	36.6	63.3	29
28 Chemicals	139	0.2	71.8	28.0	39
34 Fabricated Metals	104	0.1	21.3	78.6	47
30 Rubber	97	0.0	16.6	83.4	54
37 Transportation Equip	96	7.4	11.0	81.6	61
22 Textiles	84	0.0	0.0	100.0	67
20 Food Products	62	4.0	3.8	92.2	72
38 Instruments	59	33.4	16.9	49.7	76
00 Unspecified	58	0.3	8.1	91.6	81
33 Primary Metals	50	5.4	6.0	88.6	85
26 Paper	45	0.0	79.8	20.2	88
39 Misc Manufacturing	32	2.0	7.3	90.7	90
23 Apparel	28	1.0	0.0	99.0	92
32 Stone, Clay, & Glass	27	0.5	31.0	68.5	95
25 Furniture & Fixtures	18	0.0	100.0	0.0	96
24 Wood Products	10	0.0	22.2	77.8	97
31 Leather	10	15.8	8.5	75.0	97
27 Printing & Publishing	9	0.0	43.1	56.9	98
01 Agricultural Crops	9	0.0	0.0	100.0	99
29 Refined Petroleum	8	0.0	42.8	57.2	99
21 Tobacco	2	0.0	0.0	100.0	99
02 Livestock	2	0.0	29.3	70.7	99
99 Misc. Commodities	2	0.0	8.0	92.0	99
14 Nonmetallic Minerals	1	17.9	81.0	1.1	99
09 Fish Products	1	0.7	0.0	99.3	99
08 Forestry	*	0.0	0.0	100.0	99
91 Scrap & Waste	*	0.0	93.8	6.2	99
13 Crude Petroleum & Gas	*	0.0	100.0	0.0	100
Total, all Commodities	1,337	6.2	33.5	60.3	

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* indicates entry was less than .5 mil$

TABLE 2-B

U.S. Calculated Duties Collected on Imports from Canada

Ranked by 1985 Value

SIC	Calculated Duties (mil $)	*Staging Class Distribution:* (pct. of Calculated Duties)			Cumulative Value (% of Total)
		Immediate	5-Year	10-Year	
36 Electrical Machinery...	78	10.4	57.0	32.5	13
35 Machinery.............	76	22.2	68.0	9.8	25
28 Chemicals.............	69	2.1	88.8	9.1	36
33 Primary Metals.........	65	1.1	7.2	91.7	47
20 Food Products..........	46	25.8	1.5	72.7	54
30 Rubber.................	38	0.0	0.0	100.0	61
34 Fabricated Metals......	36	0.2	18.4	81.4	66
23 Apparel..............	25	22.5	0.0	77.5	70
37 Transportation Equip...	24	3.6	22.5	73.9	74
38 Instruments............	23	8.2	14.3	77.5	78
25 Furniture & Fixtures...	16	0.0	99.9	0.1	81
13 Crude Petroleum & Gas..	15	0.0	100.0	0.0	83
29 Refined Petroleum......	13	1.4	98.5	0.1	85
24 Wood Products..........	13	0.2	64.6	35.2	87
26 Paper..................	12	0.0	74.4	25.6	89
32 Stone, Clay, & Glass...	11	6.5	25.0	68.5	91
01 Agricultural Crops.....	10	0.2	0.3	99.5	93
39 Misc Manufacturing.....	7	16.6	10.0	73.4	94
09 Fish Products..........	6	2.7	49.3	48.0	95
31 Leather................	6	12.1	14.7	73.3	96
22 Textiles...............	6	0.0	0.0	100.0	97
99 Misc. Commodities......	6	10.7	51.2	38.2	98
98 U.S. Returned Goods....	4	100.0	0.0	0.0	99
02 Livestock..............	4	0.6	89.7	9.7	99
10 Metal Mining...........	2	43.1	1.1	55.7	99
27 Printing & Publishing..	1	10.8	89.0	0.1	99
21 Tobacco................	1	0.0	0.0	100.0	99
14 Nonmetallic Minerals...	*	33.2	66.8	0.0	99
91 Scrap & Waste..........	*	59.7	31.9	8.5	100
Total, all Commodities....	613	9.3	41.3	49.4	

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* indicates entry was less than .5 mil$

FIGURE 3-A

Canadian Duties on Imports from the U.S.

by FTA Staging Class, 1985

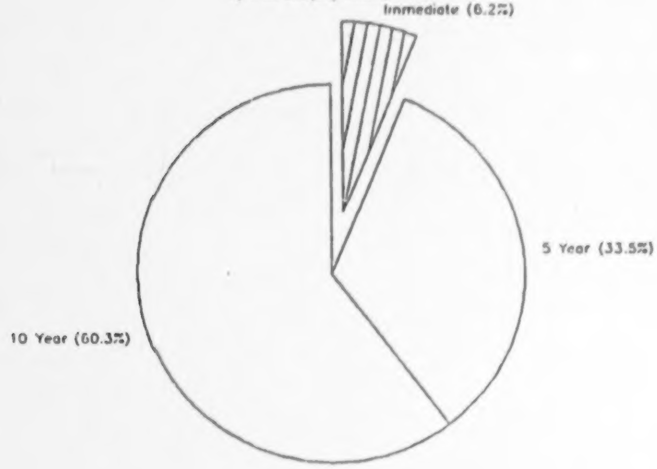


FIGURE 3-B

U.S. Duties on Imports from Canada

by FTA Staging Class, 1985

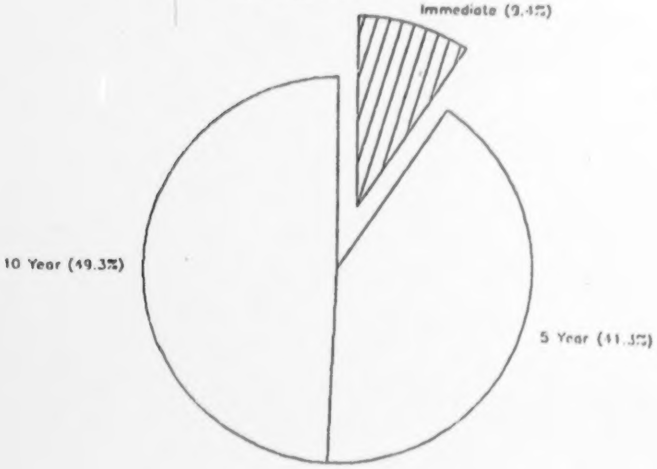


FIGURE 4-A

Canadian Dutiable Imports from the U.S.

by SIC & FTA Staging Class, 1985

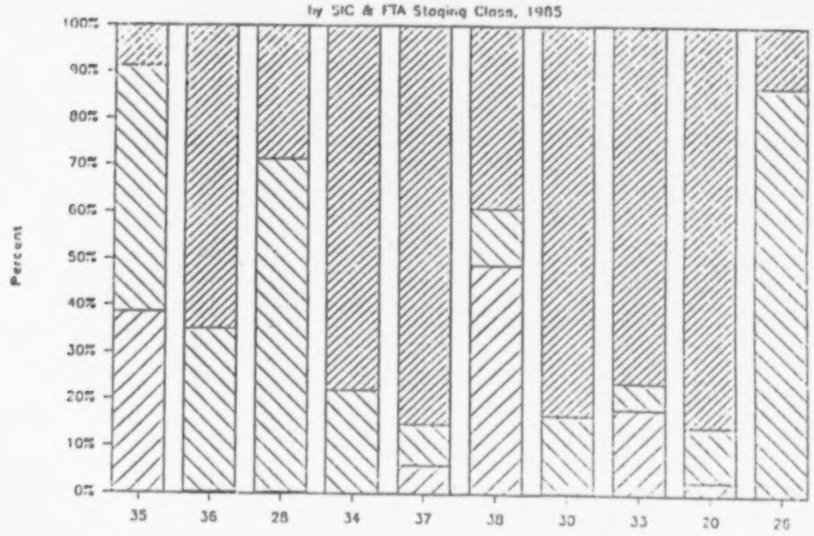


FIGURE 4-B

U.S. Dutiable Imports from Canada

by SIC & FTA Staging Class, 1985

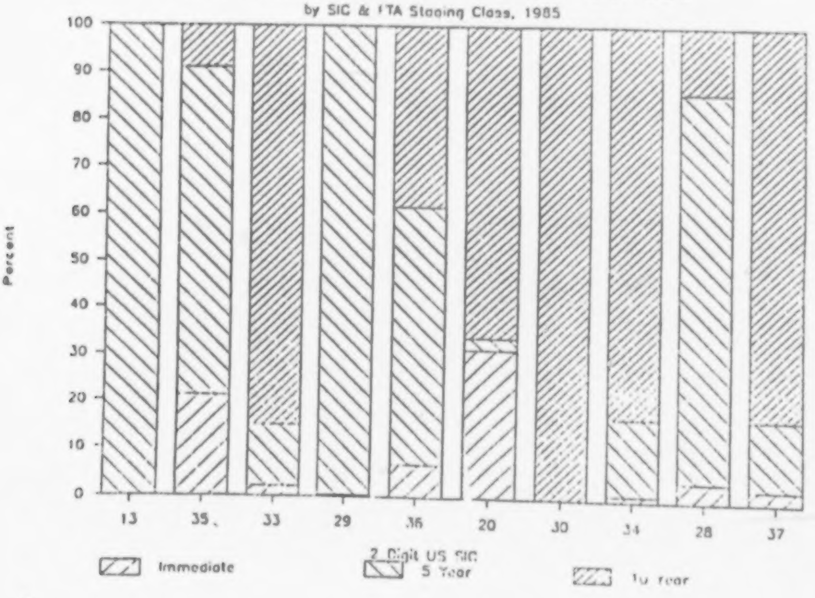


FIGURE 5-A

Canadian Duties on Imports from the U.S.

by SIC &FTA Staging Class, 1985

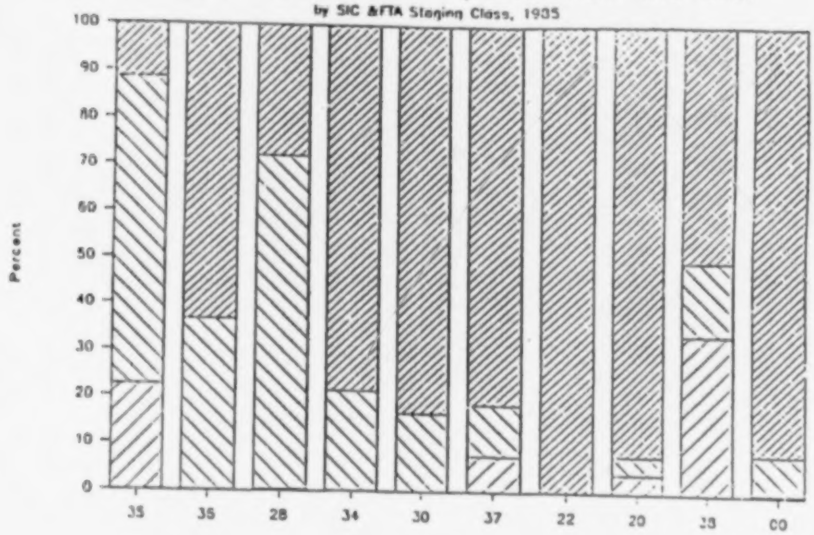
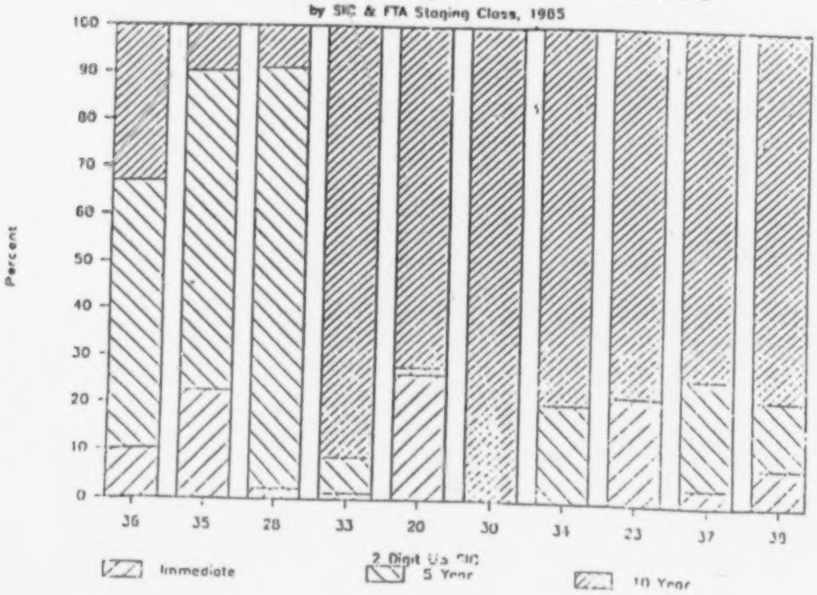


FIGURE 5-B

U.S. Duties on Imports from Canada

by SIC & FTA Staging Class, 1985



IV

ESTIMATED EMPLOYMENT IMPACTS

Having looked at the implications of the tariff reductions for dutiable imports and tariff revenues, an attempt is made here to link those changes to employment impacts in the U.S. Due to the limitations explained below, the impacts presented here can only be used to shed light on which industries may be subject to larger or smaller employment effects *relative* to the other industries under an assumption of immediate tariff elimination. Recall that the studies reviewed in the first part of this report indicated that, at a highly aggregated level, the U.S. was likely to experience very small production impacts as a result of a U.S.-Canadian FTA. Our analysis, conducted on a two-digit SIC level, would add that the manufacturing and mining sectors of the U.S. economy are unlikely to experience any noticeable employment impacts resulting from the bilateral tariff reductions.

This employment analysis does not reflect the timing of the tariff reductions; rather, bilateral free trade is assumed to be introduced immediately. Moreover, the estimates are based on partial equilibrium analysis, i.e., the effects of bilateral free trade will be estimated one industry at a time. This approach (in contrast to the CGE approach) does not allow for any inter-industry effects (e.g., increased use of plastics resulting from an increase in auto production). It assumes that the only variable to change is the price of the particular good (e.g., no exchange rate changes). Thus, the question asked in this section is, "If the U.S. and Canada were to introduce free trade immediately for good X *only*, what employment effects would likely be felt by the U.S. industry that produces good X assuming nothing else changes?"

Although it might be tempting to sum the estimated industry effects as a 'rough' measure of the 'overall' employment impact from the FTA, it would be very misleading. Each impact is derived assuming that only the U.S. and Canadian tariffs on good X are removed, and that all other economic conditions remain unchanged. The result of all tariffs simultaneously going to zero is not equal to the sum of these individual impact measures. Nevertheless, comparing the individual estimates relative to one another provides an indication of which industries are more likely to experience a relatively greater initial adjustment to immediate free trade. Looking at the size of the individual impacts will also serve to indicate the importance the existing tariffs have for particular industries.

When the U.S. removes a tariff on imports of a product from Canada, the U.S. price of the Canadian product falls by virtue of the duty elimination.[1] This decrease in price results in increased U.S. purchases of the Candian product.[2] It is assumed, other things held constant, that the resulting increase in the value of the imported Canadian product translates into a dollar for dollar reduction in U.S production of the product.[3] This reduced U.S. production is translated into reduced U.S. employment using the average labor-output ratio for the industry in 1985.[4]

Similarly, as a result of Canada simultaneously removing its tariffs on the same product, Canadian consumers will notice a price reduction on the good imported from the U.S. This, in turn, will lead Canadians to purchase more of the U.S. product, which will increase U.S. production, and thereby increase employment in the U.S.[5] Thus, there may be negative employment impacts associated with increased imports from Canada as well as positive impacts from increased exports to Canada. Table 3 presents the net of these two absolute employment effects, as well as the percentage change in the industry's 1985 employment level. The results are ranked by the implied percentage change in employment.

Given the limitations of this methodology, it is felt that any estimated impact less than a quarter of a percentage point should be interpretted as a negligible change in employment. Thus, only two sectors are likely to experience some employment impact: Leather Products (SIC 31), with a .29% decline, and Rubber and Plastic Products (SIC 30) with a .28% increase. Table 3 shows that 63.0% of the U.S. dutiable imports of Canadian Leather products will be subject to tariffs over the entire 10-year tariff reductions. Thus, the small estimated employment decline is likely to be much smaller, if not negligible, in any single year. Similarly, the small, but positive U.S. employment impacts in the Rubber and Plactic Products industry are not likely to be felt in any single year since 83.3% of Canadian dutiable imports of these items from the U.S. fall in the 10-year tariff reduction group (see Table 1-A).

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[1] This assumes that importers pass all of the savings on to consumers.

[2] The increased U.S. consumption is estimated using import price elasticities provided by Project INFORUM, University of Maryland.

[3] There is a body of empirical evidence which indicates that this "dollar for dollar" assumption is incorrect. In most cases, the use of this assumption results in an overstatement of the displacement impacts on U.S. production and employment. Thus, these results may be viewed as the worst-case scenario for U.S. industries.

[4] Data for total industry employment came from the Employment and Earnings series, U.S. Department of Labor, Bureau of Labor Statitics. The value of industry output came from U.S. Department of Commerce value of shipments series.

[5] The increased U.S. production is estimated using export elasticities from the Project INFORUM. The labor output ratios were calculated from the same data sources indicated in the previous footnote.

The industrial employment impact analysis conducted here was done under very restrictive assumptions, among which are: bilateral tariff removal is immediate and only for products in the industry under consideration; there are no intra-industry (multiplier) effects; and there is a dollar for dollar substitution of imports for domestic production. The analysis also does not take into account the removal of non-tariff barriers or other trade liberalizing measures contained in the Agreement. Any positive aggregate demand effects these measures may have on the U.S. economy have thus been ignored. As reviewed in the introduction to section II, it is difficult to quantify these dynamic growth factors which are likely to have a positive effect on employment.

TABLE 3

Estimated Two-Digit U.S. Employment Impacts from Immediate* Bilateral Free Trade With Canada, Industry by Industry

SIC	Estimated Employment Impact	1985 Total Employment	Percentage Change in Employment	U.S. Imports Staged In 5 Yr.	10 Yr.
31 Leather................	-474	165,000	-0.29%	17.8%	63.0%
28 Chemicals..............	-1942	1,044,000	-0.19%	82.7%	14.3%
33 Primary Metals...	-900	789,000	-0.11%	13.2%	85.3%
32 Stone, Clay, & Glass...	-566	588,000	-0.10%	21.1%	67.6%
35 Machinery..............	-998	2,174,000	-0.05%	70.5%	8.8%
34 Fabricated Metals......	-548	1,465,000	-0.04%	16.0%	83.8%
29 Refined Petroleum......	-63	179,000	-0.04%	99.7%	0.0%
37 Transportation Equip...	-456	1,980,000	-0.02%	14.6%	82.8%
14 Nonmetallic Minerals...	-23	110,000	-0.02%	45.8%	0.0%
24 Wood Products..........	-78	697,000	-0.01%	69.2%	30.6%
27 Printing & Publishing..	-90	1,428,000	-0.01%	83.5%	0.2%
36 Electrical Machinery...	180	2,197,000	0.01%	55.0%	38.2%
20 & 21 Food and Tobacco..	204	1,666,000	0.01%	2.6%	66.3%
13 Crude Petroleum & Gas..	104	583,000	0.02%	100.0%	0.0%
25 Furniture..............	132	494,000	0.03%	99.1%	0.1%
39 Misc. Manufacturing....	101	367,000	0.03%	10.0%	70.8%
10 Metallic Ores..........	12	20,000	0.06%	1.6%	67.7%
22 Textiles...............	419	702,000	0.06%	0.0%	100.0%
26 Paper..................	822	678,000	0.12%	76.1%	23.9%
23 Apparel................	1861	1,122,000	0.17%	0.0%	59.8%
30 Rubber & Plastics......	252	805,000	0.28%	0.0%	100.0%

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*These figures are estimates of the employment change an industry may experience if the U.S. and Canada moved to immediate bilateral free trade in that industry only. In fact, only 7% of the current dutiable trade is scheduled to go free immediately. Summation of estimated employment impacts across 2-digit SIC industries is not meaningful (see text).

Appendix A

Two Digit SIC Manufacturing Industry Profiles

This section presents 1985 data for the twenty 2-digit SIC industries which cover the manufacturing sector of the U.S. economy. The presentation attempts to indicate the economic significance of U.S. imports from Canada and total U.S. imports for each manufacturing industry.

In 1985, U.S. GNP was recorded in the National and Income and Product Accounts as $4 trillion. As can be seen in Table A-1, the value of manufacturing output in that year, as measured by the value of shipments, was approximately $2.3 trillion. Obviously, the manfacturing sector plays a very important role in the overall health of the economy. It is not surprising then to find manufactured goods (SICs 20 through 39) accounting for a large share of many important economic aggregates. As can be seen in Table A-1, manufactured goods account for 73% of total U.S. imports, 62% of total imports from Canada, and 72% of dutiable imports from Canada.

Table A-1 also lists the following series for each 2-digit manufacturing industry: shipments (a measure of the total industry output), total U.S. imports, total U.S. imports from Canada, and dutiable imports from Canada (the value of goods imported from Canada which are subject to a U.S. duty). For each industry, the import figures represent the value of goods imported which have characteristics similar to the goods produced by that domestic industry. These import figures can be thought of as the value of foreign goods which compete with the domestically produced items.

Table A-1 also lists a calculated Ad Valorem Equivalent (AVE) tariff rate for imports from Canada. The AVE is an indicator of the average level of protection a domestic industry enjoys. The AVE is calculated as the ratio of calculated duties collected on U.S. imports from Canada to the total value of those imports. With the exception of three industries, the average tariff rates are less than 10%. The three industries with the highest tariff rates are Tobacco (23%), Apparel (10%), and Textiles (10%). For manufacturing as a whole, the AVE is 4% which is slightly larger than the overall AVE of 3% on imports from Canada across all industries.

When the series are displayed in such an aggregate format, one must exhibit caution in making generalizations. It is useful, though, to note cases which seem to deviate from apparent relationships and see if there are special circumstances which help explain the deviation. Perhaps the most apparent relationship of Table A-1 is that the larger the value of output, the larger the value of imports. This relationship can be seen between industry shipments and each of the three imports series (World, Canadian, and Dutiable Canadian). This relationship between shipments and imports suggests that when a manufacturing sector of the economy is large, there is a domestic market which supports both a large domestic base of production and a large (relative to total imports) level of imports. The two industries which seem to deviate most from this observation are: Transportation Equipment (SIC 37) and Printing and Publishing (SIC 27). In terms of manufacturing shipments, these two industries rank 2nd and 8th respectively, yet are near the bottom when ranked by value of dutiable imports. The explanation of this paradox is in part found in the third column of Table A-2. There it can be seen that these two industries have the lowest dutiable imports as a percentage of total Canadian imports figures. In the case of imports of Canadian transportation equipment, most of the trade is already governed by the Canada-U.S. Automotive Parts Trade Agreement (APTA) which allows a large value of imports to enter duty free.[6]

The information contained in Table A-2 shows the significance U.S. imports of Canadian manufactured goods have to the U.S. manufacturing sector as a whole. Table A-2 contains the information of Table A-1 presented in terms of relative shares. The first column of Table A-2 list total U.S. imports as a percent of new supply in the U.S. New supply is the sum of the domestic industry's output and the total imports of similar goods. Overall, total U.S. imports of manufactured goods represent 10% of new supply. The individual industrial shares ranged from insignificant for tobacco and printing & publishing, to 50% for imported leather goods.[7]

The second column of Table A-2 shows the value of imports from Canada relative to total U.S. imports for each industry. The values range from 1% for Apparel (SIC 23) and Leather (SIC 31), to 36% for Transportation Equipment (SIC 37). The entries of this column are in part the result of the differences in each countries' factor endowments, i.e., what economists call comparative advantage. The fact that Canada has a relative abundance of forest is reflected in Table A-2 by the large shares Canada has of U.S. imports of Wood Products (SIC 24), Furniture (SIC 25), Paper (SIC 26), and Printing & Publishing (SIC 27). The effects of a country's trade policies also influence the entries. The impact of the APTA is clearly seen in Canada's 36% share of U.S. Tranporation Equipment (SIC 37) imports.

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[6] In 1985, total U.S. imports of transportation equipment from Canada were approximately $24 billion, of which almost 97% entered duty-free.

[7] The way in which this ratio is constructed implies that when it takes on the value of .5, as in the case of Leather (SIC 31), the value of imports was equal to the value of domestic production.

The third column of the table is determined by U.S. commercial policy. It indicates the percentage of our manufactured imports from Canada that is subject to a duty. The Auto Pact results in only 3% of Transportation Equipment imported from Canada being subject to duty, while U.S. protection of Apparel and Tobacco result in 100% of the imports being assessed custom duties. Overall, approximately one-third of our manfactured imports from Canada face a tariff. However, as the last column of Table A-1 indicates, the level of those duties are in most cases very low (on average only 4% for manufactured imports from Canada).

The last column of Table A-2 helps put the value of the imports directly affected by the Agreement into perspective. It shows the value of dutiable imports from Canada as a percentage of new supply. As can be seen, all such imports are less than 2% of new supply, and in only three sectors are the values greater than 1%. When viewed from this level of aggregation, it is easy to see why the models of Part I found very small production impacts from the preferential tariff elimination with Canada. In the U.S. then, only .5% of new supply is being subjected to a 4% price change (the average rate of U.S. tariff to be eliminated).

The last table of this section is Table A-3. It contains the number of employees for each manufacturing sector for 1985. The first column represents the total employment level, while the second column indicates the number of production workers. The last column expresses the ratio of all employees to the value of the industry's shipments (the first column of Table A-1). It indicates how many thousand workers were, on average, associated with one million dollars of the industry's shipments in 1985.

It is interesting to look at two industries which are relatively more protected than other manufacturing industries; namely, Textiles (SIC 22) and Apparel (SIC 23). Textiles ranked 11th in employment but 16th in value of goods produced, and Apparel ranked 7th and 13th respectively. Compared to the others, these two industries are on average, more labor intensive than most other manufacturing industries. These two industries are however protected by a system of quotas and tariffs designed to maintain the level of Textile and Apparel employment.

What these tables reveal is that there appears to be a positive relationship between a sector's output and employment, output and imports, and imports and employment. As stated above, these aggregate figures and correlations in no way allow causal inferences to be drawn. It is clear that the increment to duty-free imports resulting from the Agreement is neither a large share of the imports already competing with domestic industry, nor a large share of any one sector's domestic production. Given that 35% of the dutiable imports are not to receive complete duty free status for ten years, there appears to be no 2-digit sector in danger of being swamped by imports of goods from Canada.

TABLE A-1

U.S. Manufacturing Imports Profile, 1985 Values

(millions of dollars)

SIC	U.S. Shipments	Total Imports	*U.S. Imports from CANADA* Total Imports	Dutiable Imports	AVE
20 Food Products.............	301,562	10,567	1,251	956	5%
21 Tobacco....................	18,507	34	4	4	23%
22 Textiles...................	53,277	3,470	85	62	10%
23 Apparel....................	56,993	16,074	239	238	10%
24 Wood Products..............	54,185	2,598	463	266	5%
25 Furniture..................	31,294	3,242	888	437	4%
26 Paper......................	93,415	2,195	711	341	3%
27 Printing & Publishing......	111,885	475	129	50	3%
28 Chemicals..................	197,311	9,093	1,053	790	9%
29 Refined Petroleum..........	179,135	16,340	1,727	1,610	1%
30 Rubber.....................	71,324	4,933	950	863	4%
31 Leather....................	8,567	8,428	86	83	8%
32 Stone, Clay, & Glass.......	55,064	3,601	568	259	4%
33 Primary Metals.............	110,301	18,687	4,335	2,007	3%
34 Fabricated Metals..........	139,580	7,410	1,318	792	5%
35 Machinery..................	215,080	31,388	3,025	2,142	4%
36 Electrical Machinery.......	192,732	30,021	1,676	1,441	5%
37 Transportation Equipment...	301,386	64,565	23,029	724	3%
38 Instruments................	61,008	7,794	681	438	5%
39 Misc Manufacturers.........	26,527	7,526	142	131	6%
Total, all Manufacturing......	2,279,131	248,441	42,360	13,636	4%
Total, all Commodities........	n.a.	340,016	68,431	19,056	3%
Mfg. Share of All Commodities.	n.a.	73%	62%	72%	

Source: From official statistics of the U.S. Census Bureau and the Office of the United States Trade Representative.

TABLE A-2

U.S. Manufacturing Imports Profile, 1985 Shares

SIC	Total Imports as a % of New Supply	*U.S. Imports from CANADA* Share of Total Imports	Dutiable as a % of Tot. Canadian	Dutiable as a % of New Supply
20 Food Products.............	3%	12%	76%	0.3%
21 Tobacco...................	0%	12%	100%	0.0%
22 Textiles..................	6%	2%	73%	0.1%
23 Apparel...................	22%	1%	100%	0.3%
24 Wood Products.............	5%	18%	57%	0.5%
25 Furniture.................	9%	27%	49%	1.3%
26 Paper.....................	2%	32%	48%	0.4%
27 Printing & Publishing.....	0%	27%	39%	0.0%
28 Chemicals.................	4%	12%	75%	0.4%
29 Refined Petroleum.........	8%	11%	93%	0.8%
30 Rubber....................	6%	19%	91%	1.1%
31 Leather...................	50%	1%	97%	0.5%
32 Stone, Clay, & Glass......	6%	16%	46%	0.4%
33 Primary Metals............	14%	23%	46%	1.6%
34 Fabricated Metals.........	5%	18%	60%	0.5%
35 Machinery.................	13%	10%	71%	0.9%
36 Electrical Machinery......	13%	6%	86%	0.6%
37 Transportation Equipment..	18%	36%	3%	0.2%
38 Instruments...............	11%	9%	64%	0.6%
39 Misc Manufacturers........	22%	2%	92%	0.4%
Total, all Manufacturing.....	10%	17%	32%	0.5%

Source: Calculated from Table A-1.

TABLE A-3

U.S. Manufacturing Employment Profile, 1985

SIC	All Employees (thous)	Production Workers (thous)	Labor-Shipments Ratio
20 Food Products..............	1,423	994	0.5
21 Tobacco....................	49	37	0.3
22 Textiles...................	658	565	1.2
23 Apparel....................	1,059	904	1.9
24 Wood Products..............	613	514	1.1
25 Furniture..................	472	380	1.5
26 Paper......................	604	462	0.6
27 Printing & Publishing......	1,360	742	1.2
28 Chemicals..................	826	476	0.4
29 Refined Petroleum..........	128	84	0.1
30 Rubber.....................	743	578	1.0
31 Leather....................	147	125	1.7
32 Stone, Clay, & Glass.......	520	404	0.9
33 Primary Metals.............	742	571	0.7
34 Fabricated Metals..........	1,473	1,104	1.1
35 Machinery..................	1,991	1,237	0.9
36 Electrical Machinery.......	2,007	1,233	1.0
37 Transportation Equipment...	1,757	1,180	0.6
38 Instruments................	604	348	1.0
39 Misc Manufacturers.........	328	235	1.2
Total, all Manufacturing......	17,175	11,937	0.8

Source: From official statistics of the U.S. Bureau of Labor Statistics and the U.S. Census Bureau.

Appendix B

Tariff Staging Distributions for Primary Metals, Transportation Equipment,and all Two-Digit SIC Industries

Part II of this report contained information for the top-ten dutiable imports two-digit SIC industry groups. This appendix will provide information for all two-digit SIC categories, as well as information at the three-digit level for the Primary Metals (SIC 33) and Transportation Equipment (SIC 37) industries. Since the material presented here is in terms of relative share, the reader is referred to Tables 1-A and 1-B of the report for the actual magnitudes underlying the figures on dutiable imports, and Tables 2-A and 2-B of the report for those on the calculated duties.

Primary Metals and Transportation Equipment were chosen for three-digit break out since they are arguably (and traditionally) the most critical manufacturing industries for both the U.S. and Canada. For the U.S., these two categories account for about 14% of both dutiable imports and duties collected from Canada. For Canada, they account for 12% of dutiable imports from the U.S. and 11% of the duties collected on those imports. Canadian levels of protection for these two industries (as measured by an AVE), are noticeably higher than those of the U.S.: 10% for Transportation Equipment versus the U.S. level of 3.3%, and 7% for Primary Metals compared to 3.2% for the U.S. Even though most (97%) of the bilateral auto trade is already duty-free under the existing Canada-U.S. Auto Pact, transportation equipment is still an important bilateral dutiable import category ranking 10th in value for the U.S., and 5th for Canada.

Figure B-1 displays how U.S. and Canadian dutiable imports of Primary Metals are distributed across the three tariff reduction classes. The most important of these three-digit groups for each country is Blast Furnace and Basic Steel Products (SIC 331). It accounts for 57% of the dutiable primary metals imports for the U.S., and 51% of Canada dutiable primary metals imports from the U.S. For both countries, SIC 331 is essentially assigned to the 10-year reduction group. Figure B-1 also indicates that most of the items comprising each countries dutiable imports of primary metals also fall into the 10-year tariff staging group.

Compared to Figure B-1, Figure B-2 shows more variation in the components of Transportation Equipment dutiable imports. Here again, the same story can be told for each country. Motor Vehicles (SIC 371), Ship and Boats (SIC 373), and Miscellaneous Transportation Equipment (SIC 379) are predominantly assigned to the 10-year category, while Aircraft (SIC 372) and Railroad Equipment (374) are predominantly assigned to the 5-year category. Motorcyles and Bicycles (SIC 375) will for the most part go duty-free upon the Agreement's implementation (immediate). It is interesting to note that, even with the Canada-U.S. Auto Pact provisions, the single largest component of U.S. and Canada bilateral dutiable trade in Transportation Equipment is Motor Vehicles (SIC 371); 79% of the U.S. total, and 82% of the Canadian total.

When put in terms of duties collected the story for Primary Metals, Figure B-3, is the same as above for dutiable imports, i.e., the U.S. and Canada have pretty much equal treatment at the three digit level. As seen in Figure B-4 however, differences do arise in the duties each country will forgo on Transportation Equipment. Canada assigns almost all duties collected on Ships and Boats (SIC 373) to the 10-year group, whereas most of the U.S. duties are approximately split between the 5 and 10-year groups. For duties collected on Motorcycles and Bicycles (SIC 375), again the U.S. approximately splits the duties into the 5 and 10-year groups, whereas Canada essentially lets these imports go duty free immediately. The largest revenue groups for both countries are the same as those indicated above for dutiable imports.

Figures B-5 and B-6 display staging information for all dutiable imports at the two-digit SIC level for the U.S. and Canada, respectively. The reader is referred to Tables 1-A and 1-B of Part II for the magnitudes associated with each two-digit category. Table B-1, which precedes the figures, is a listing of the titles associated with the three- and two-digit SIC codes used in the figures.

At this level of aggregation, it appears that the Agreement gives equal treatment to U.S. and Canadian industry. Of the few industries which are treated differently, the only ones with dutiable imports of any note are: Refined Petroleum (SIC 29), and Instruments (SIC 38). Refined Petroleum ranks 4th in dutiable imports for the U.S. and will have all tariffs removed after 5 years. For Canada, this industry ranks 19th and is split about equally between the 5 and 10-year staging groups. While Canada gets to keep this industry protected slightly longer than does the U.S., it is a less important category of exports for the U.S. Just the opposite occurs with Instruments. For this group, the U.S. will have some protection in place for 10 years covering about 70% of the dutiable imports in this 11th ranked dutiable import group. Canada, on the other hand, has only about 40% of its dutiable imports assigned to the 10-year group, and this is an industry which ranks 6th for Canadian imports.

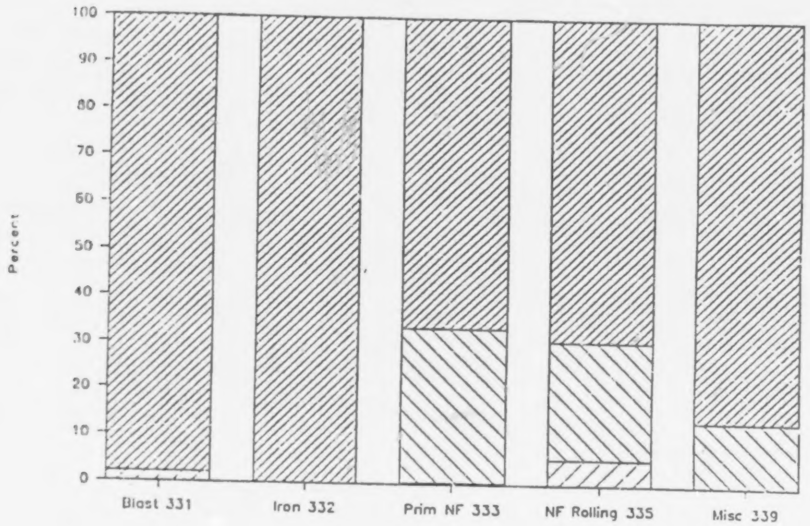
Much of the same can be said for Figures B-7 and B-8. These figures display how the duties collected in 1985 would be distributed across the three tariff reduction staging classes. The only two-digit SIC industry which gets significantly different treatment and which has any sizable tariff revenues, is Instruments (SIC 38). For the U.S., Instruments ranks 10th in tariff receipts and has over three-quarters of the revenues falling into the 10-year staging class. Canada, for which this industry ranks 9th for duties collected, will forgo about half of its collected revenues upon implementation of the Agreement, and about a third of the revenues will be foregone over 10 years.

TABLE B-1

List of Three- and Two-Digit SIC Titles

00	Yet to be Classified
01	Agricultural Products
02	Livestock
08	Forestry Products
09	Fish
10	Metals
13	Crude Petroleum & Gas
14	Nonmetallic Minerals
20	Food Products
21	Tobacco
22	Textiles
23	Apparel
24	Wood Products
25	Furniture
26	Paper
27	Printing & Publishing
28	Chemicals
29	Refined Petroleum
30	Rubber
31	Leather
32	Stone, Clay, & Glass
33	Primary Metals
34	Fabricated Metals
35	Machinery
36	Electrical Machinery
37	Transportation Equipment
38	Instruments
39	Misc. Manufacturers
91	Waste and Scrap
98	U.S. Returned Goods
99	Misc. Commodities
331	Blast Furnace & Basic Steel
332	Iron and Steel
333	Primary Nonferrous Metals
335	Nonferrous Rolling & Drawing
339	Misc. Primary Metals
371	Motor Vehicles & Equipment
372	Aircraft and Parts
373	Ships and Boats
374	Railroad Equipment
375	Motorcycles and Bicycles
379	Misc. Transportation Equipment

FIGURE B-1
U.S. and Canadian Bilateral Dutiable Imports of Primary Metals, by 3 Digit SIC Industry and FTA Staging Class, 1985


U.S. Dutiable Imports from Canada

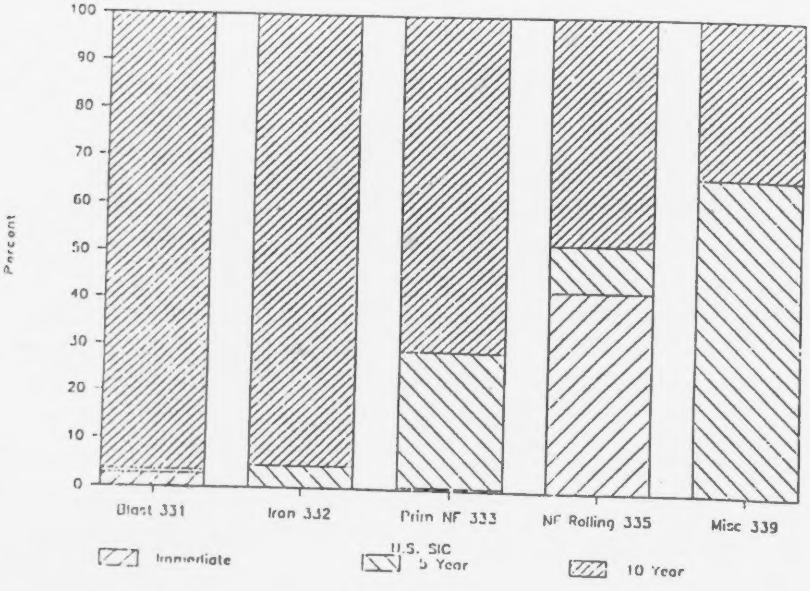
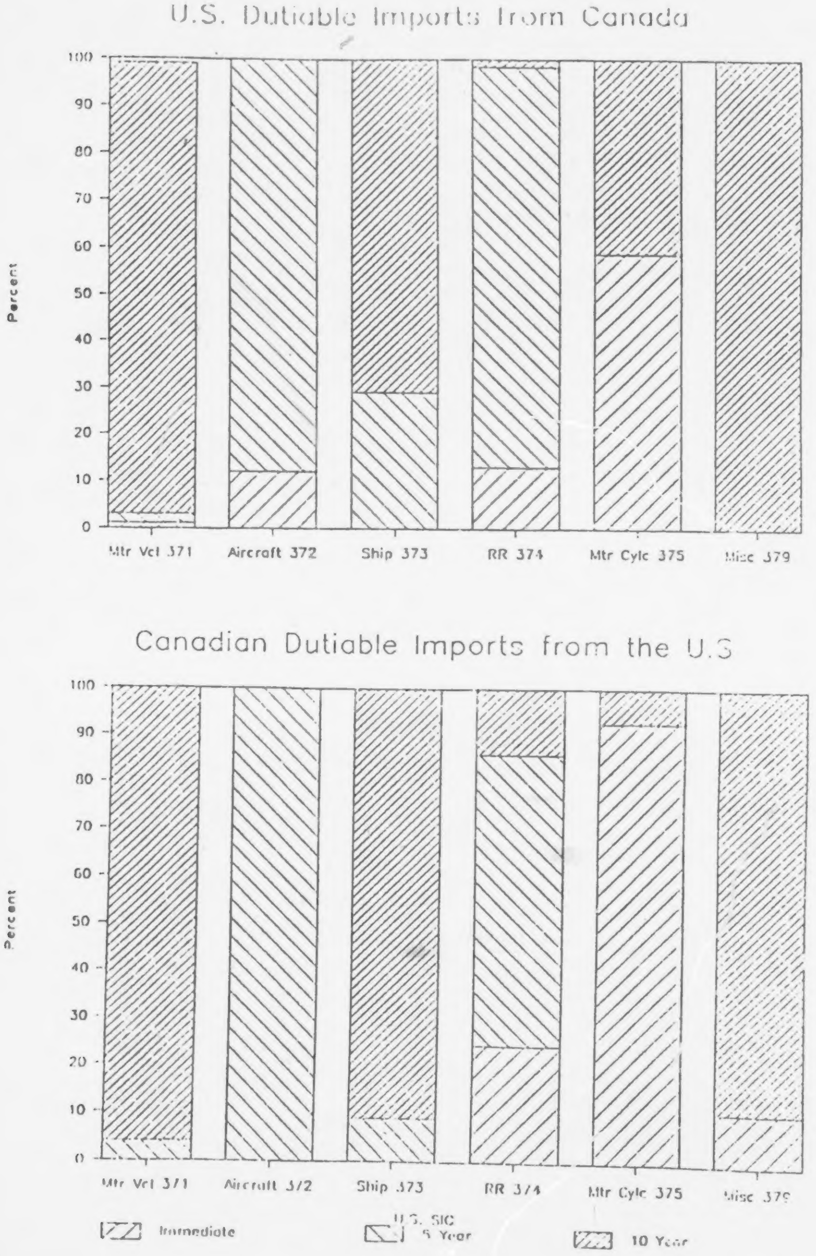

Canadian Dutiable Imports from the U.S

FIGURE B-2
U.S. and Canadian Bilateral Dutiable Imports of Transportation Equipment, by 3 Digit SIC Industry and FTA Staging Class, 1985

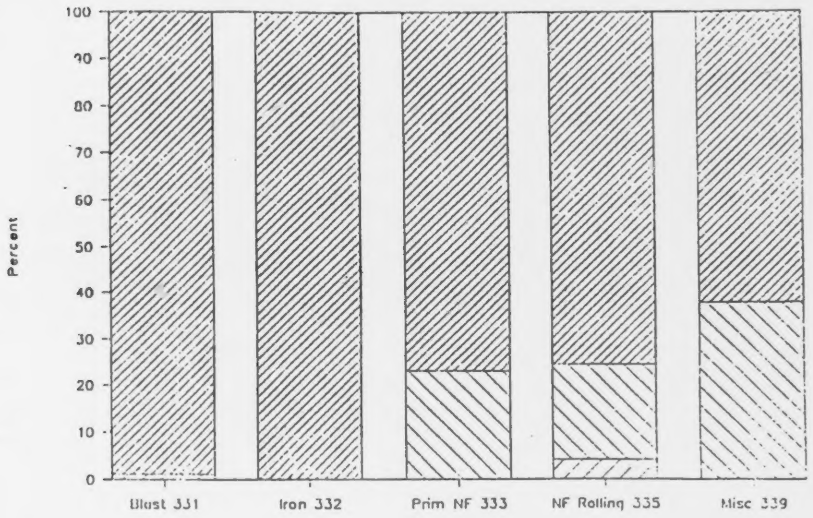


U.S. Dutiable Imports from Canada

Canadian Dutiable Imports from the U.S

U.S. and Canadian Bilateral Duties on Imports of Primary Metals, by 3 Digit SIC Industry and FTA Staging Class, 1985

U.S. Duties on Imports from Canada



Canadian Duties on Imports from the U.S

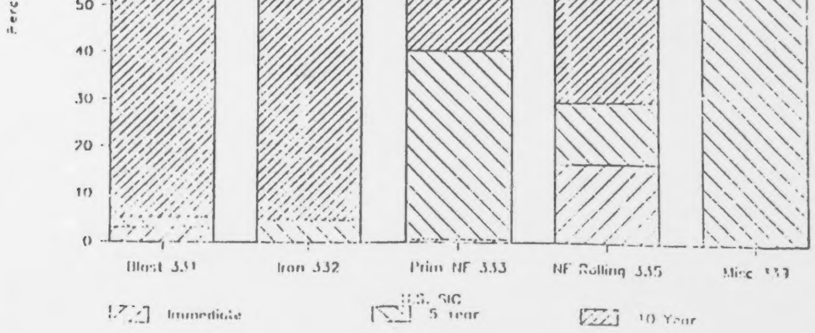
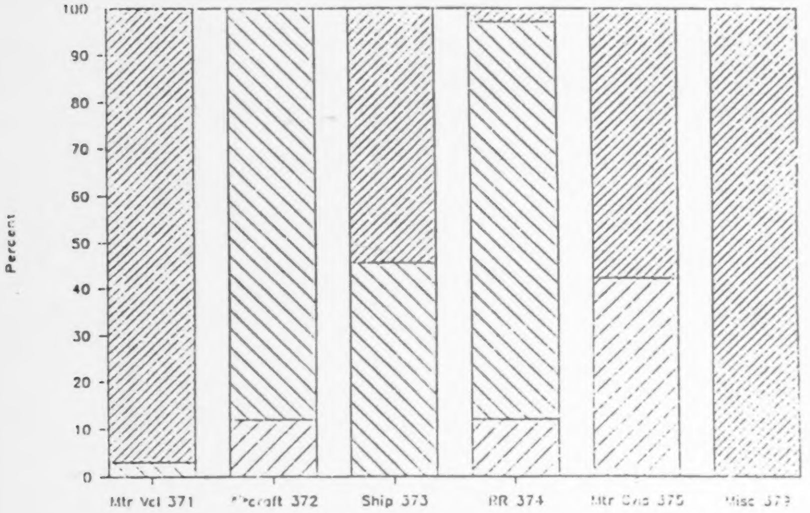


FIGURE B-4
U.S. and Canadian Bilateral Duties on Imports of Transportation Equipment, by 3 Digit SIC Industry and FTA Staging Class, 1985


U.S. Duties on Imports from Canada

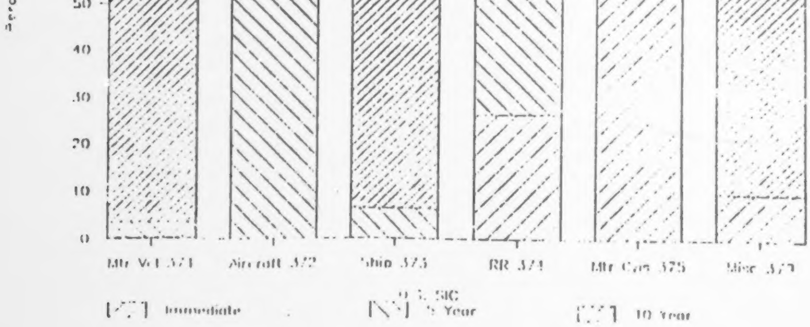

Canadian Duties on Imports from the U.S

FIGURE B-5
U.S. Dutiable Imports from Canada, by 2 Digit SIC Industry and FTA Staging Class, 1985

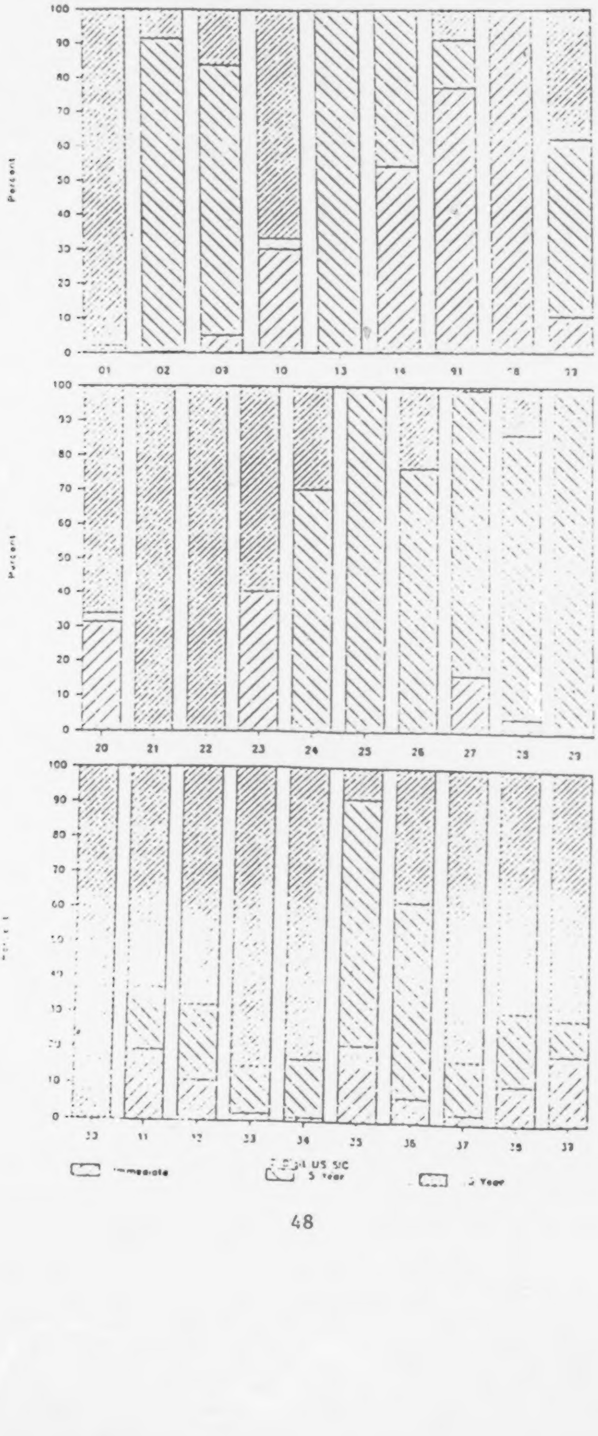


FIGURE B-6

Canadian Dutiable Imports from the U.S., by 2 Digit SIC Industry and FTA Staging Class, 1985

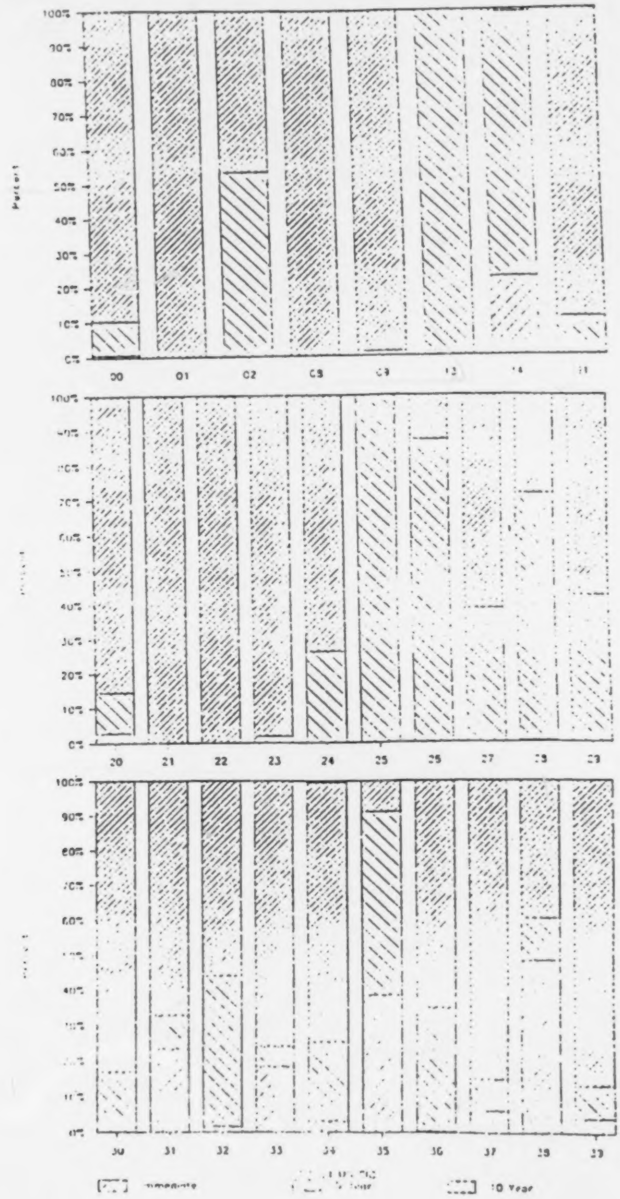


FIGURE B-7

U.S. Duties Collected on Imports from Canada, by 2 Digit SIC Industry and FTA Staging Class, 1985

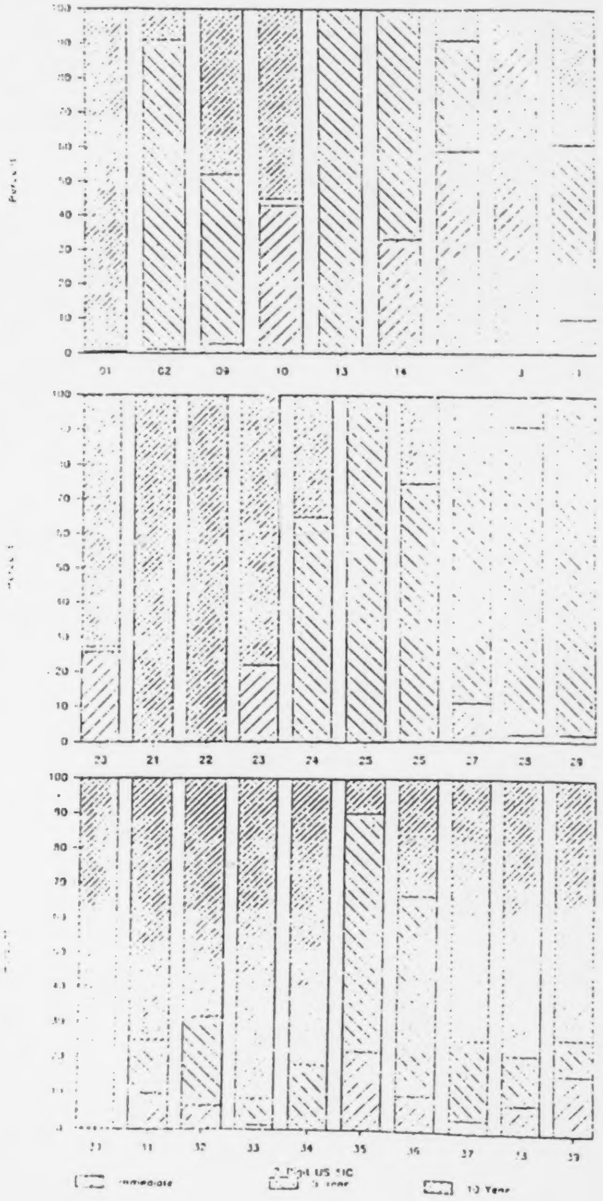
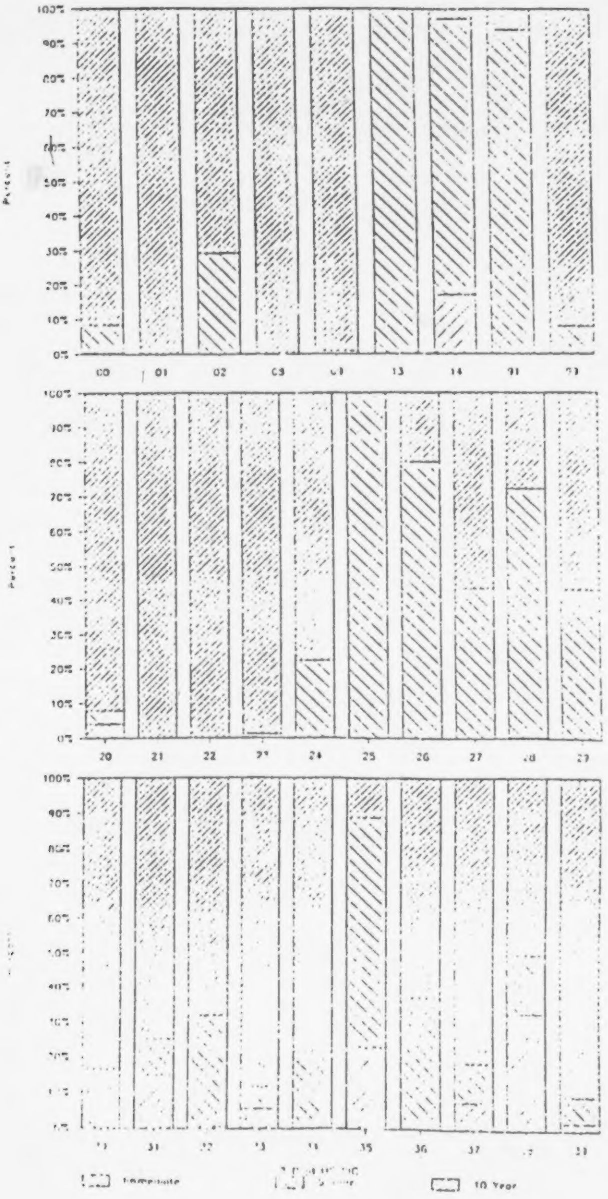


FIGURE B-8
Canadian Duties Collected on Imports from the U.S., by 2 Digit SIC Industry and FTA Staging Class, 1985



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UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT

FOR ALABAMA

Prepared by

The Office of Canada
International Trade Administration
U.S. Department of Commerce (Room 3033)
Washington, D.C. 20230
(202) 377-3101

March 7, 1988

The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE ALABAMA-CANADA TRADING RELATIONSHIP

In 1986, Canada and ALABAMA traded over $848.2 million worth of commodities. Whereas the United States as a whole tends to run a goods trade deficit with Canada, ALABAMA exports more than one-eighth more to Canada than it imports from it.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for ALABAMA arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, ALABAMA consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. ALABAMA manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- ALABAMA exported $453.5 million worth of commodities to Canada in 1986.
    - Major exports included motor vehicle parts, except engines; television, radio sets and phonographs; organic chemicals; electronic computers; meat, fresh, chilled or frozen; other telecommunication and related equipment; auxiliary electrical equipment for engines; man-made fibers; other transportation equipment; and paper and paperboard.
- ALABAMA imported $394.7 million worth of commodities from Canada in 1986.
    - Major imports included aluminum, including alloys; iron ores and concentrates; lumber, softwood; newsprint paper; motor vehicle parts; various transportation equipment; materials handling machinery and equipment; synthetic rubber and plastics materials; wood pulp and similar pulp; and heating and refrigeration equipment.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
    - ALABAMA service industry establishments recorded over $4.7 billion in revenues in 1982.

  - Major service industry employers include health, business, personal, membership organizations, and educational services.
  - In 1986, 38,400 Canadian tourists spent $4 million in ALABAMA.

- Over one out of twelve ALABAMANS working in the manufacturing sector hold export-related jobs.
  - $3.7 billion of ALABAMA manufacturing shipments are related to exports (1983).
  - In the ALABAMA manufacturing sector, 30,000 positions depend on exports (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- The two leading American export prospects to Canada in 1988, according to the U.S. Foreign Commercial Service in that country, are among ALABAMA'S top export items. 1986 sales to Canada of these products--various motor vehicle components and electronic computers--were $147 million and $22 million, respectively. About 18,000 ALABAMANS are employed in the machinery industry, which produces many computer goods. Another 22,000 work in the manufacture of transportation equipment.
  - ALABAMA automobile engine and parts producers stand to profit from the staged elimination of the Canadian restriction on the importation of used American motor vehicles.
  - ALABAMA's auto sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.
  - After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.

- The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

- The 3.9% Canadian duty on computers will end on January 1, 1989. Duties on various electronic devices will be completely phased out by 1998. The FTA provisions on enhanced telecommunications and computer services ensure further development of an open and competitive Canadian market, including access to and the use of the basic telecommunications network. These changes will make ALABAMA exporters of high-tech products more competitive in the Canadian market.

o With the expansion of government procurement opportunities through the FTA, ALABAMA firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

o Investment by Canadian companies in ALABAMA is over $692 million. Employment generated by Canadian investments is estimated to be over 6,000.

- The FTA encourages additional ALABAMA investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both ALABAMA and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

o ALABAMA conducts millions of dollars worth of services trade with Canada each year. Over 341,000 ALABAMANS work in the service, finance, insurance and real estate fields.

- The FTA facilitates the entry of certain ALABAMA business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.

- The FTA enhances service trade opportunities for ALABAMA businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

- The FTA covers dozens of services in the agriculture and forestry; mining; construction; distributive trade; insurance and real estate; and commercial service sectors.

- ALABAMA firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.

- Future licensing and certification requirements for ALABAMA residents providing professional services such as accountants and engineers will be primarily based on competence and ability--not citizenship.

o In 1986, ALABAMA imported over $26 million worth of newsprint paper.

  - The FTA ensures that this product will continue to enter the United States duty free in the years ahead. This will provide additional security to those working for ALABAMA's newspapers, including its 27 dailies.

o The FTA specifically continues in force the 1986 U.S.-Canada Memorandum of Understanding on Softwood Lumber and allows measures necessary to enforce it. This agreement concerning Canadian provincial pricing practices for stumpage resolved a subsidy case against imports of Canadian softwood lumber.

STATE STATISTICAL PROFILE: ALABAMA

Population (July 1, 1987)	4,083,000
Area	51,705 square miles 133,915 square kilometers
Gross State Product ($ millions, 1988)	$59,867

Nonagricultural Employees- Total and By Industry Groups (in 000s, October 1987)

Total:	1,502
Industry Groups:	
Mining	12
Construction	77
Manufacturing	365
Transportation and Public Utilities	72
Wholesale and Retail Trade	333
Finance, Insurance and Real Estate	70
Other Services	271
Government	301

Manufacturing Sector Employment- Total and Major Groups (1985)

Total:	341,800
Apparel and Textile Products	56,600
Textile Mill Products	29,600
Lumber and Wood Products	27,100
Food and Kindred Products	26,600
Fabricated Metal Products	23,600

Service Sector Employment- Total and Major Groups (1985)*

Total:	302,800
Health Services	82,500
Business Services	38,600
Membership Organizations	23,800
Banking	21,100
Insurance Carriers	15,200

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in ALABAMA

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$2,984
Canada	692

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	315
Canada	47

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986):	$453,537**

Leading ALABAMA Exports to Canada:

Motor Vehicle Parts, Except Engines	$147,218
Televisions, Radio Sets and Phonographs	35,268
Organic Chemicals	28,637
Electronic Computers	22,137
Meat, Fresh, Chilled or Frozen	16,713
Misc. Telecommunications and Related Equipment	14,652
Auxiliary Electrical Equipment for Engines	10,160
Man-made Fibers	7,897
Misc. Transportation Equipment	7,087
Paper and Paperboard	6,748

Imports from Canada ($ 000s, 1986):	$394,737

Leading ALABAMA Imports from Canada:

Aluminum, Including Alloys	$103,089
Iron Ores and Concentrates	61,070
Lumber, Softwood	32,063
Newsprint Paper	26,515
Motor Vehicle Parts, Except Engines	23,334
Misc. Transportation Equipment	16,048
Materials Handling Mach. & Equip.	14,225
Synthetic Rubber & Plastics Materials	10,656
Wood Pulp and Similar Pulp	9,917
Heating & Refrigeration Equipment	9,751

** It is likely that exports from the State of ALABAMA to Canada are underestimated. Approximately one out of every seven dollars worth of U.S. exports to Canada cannot be assigned to a state. Most of these exports are automotive products, which are among ALABAMA's leading exports to Canada.

Sources: Statistics Canada, U.S. Department of Commerce, U.S. Department of Labor and the University of ALABAMA.

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BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT FOR ALASKA

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Washington, D.C. 20230
(202) 377-3101

March 7, 1988

The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE ALASKA-CANADA TRADING RELATIONSHIP

In 1986, Canada and ALASKA traded over $123.7 million worth of commodities.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for ALASKA arise through the Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian economy.

Through the FTA, ALASKA's consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. ALASKA's manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- ALASKA exported $43.6 million worth of commodities to Canada in 1986.
    - Major exports included fish and marine animals; crude wood materials; precious metals, including alloys; measuring, laboratory equipment; aircraft; aircraft parts; fur skins; track-laying tractors and used tractors; and ships, boats and parts, except engines.
- ALASKA imported $80.0 million worth of commodities from Canada in 1986.
    - Major imports included prefabricated buildings and structures; drilling, excavating, and mining machinery; petroleum and coal products; newsprint paper; motor vehicles; lumber and softwood; aircraft parts; miscellaneous crude wood parts; and metal fabricated basic products.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
    - On a national per capita basis, ALASKA's 525,000 residents would be expected to account for $54.8 million of this trade. However, given its geographic location on the Canadian border, it is possible that this figure is much higher.
    - ALASKA service industry establishments recorded over $1.3 billion in revenues in 1982.

  - Major service industry employers include health, business, social, hotel and lodging places, membership organizations, and personal services.

  - In 1986, 62,200 Canadian tourists spent $14 million in ALASKA.

- More than one out of four ALASKANS working in the manufacturing sector hold export-related positions. ALASKA's manufacturing sector is more dependent on exports than any other state's.

  - $700 million of ALASKA manufacturing shipments are related to exports (1983).

  - In the ALASKA manufacturing sector, 3,000 positions are dependent on exports.

IMPACT OF THE FREE TRADE AGREEMENT

- In 1986, ALASKA exported to Canada over $2 million in measuring and laboratory equipment, close to $4 million in aircraft and aircraft parts, and over $500 thousand in organic and inorganic chemicals. These commodities are among the top export prospects to Canada in 1988. Together these industries employ some 600 ALASKANS.

  - ALASKA's opportunities expand in these fast-growing sectors with the gradual elimination of duties on all of these products. In addition, FTA provisions that eliminate the prohibition on used aircraft ensure further development of an open and competitive Canadian market.

- One of ALASKA's leading imports from Canada is drilling, excavating, mining machinery. In 1986, the state imported $10.6 million worth of this commodity. Over 9,000 ALASKANS are employed in the mining industry.

  - Through the FTA, products such as drilling, excavating, mining machinery will enter the U.S. without duty in the years ahead. These provisions provide some security in the ALASKAN mining industry who depend on Canadian mining equipment.

- ALASKA imported over $13 million in prefabricated buildings and structures 1986.

  - Through the Free Trade Agreement, products such as prefabricated buildings and structures will enter the United States tariff-free by 1998. This provision will provide some ease of access for prefabricated buildings and structures for the nearly 16,000 ALASKANS employed in the contract construction industry.

- With the expansion of government procurement opportunities through the FTA, ALASKA firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.
- Total foreign direct investment in ALASKA is over $14 billion. Employment generated by Canadian investments is nearly 1,200.
  - The FTA encourages additional ALASKA investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both ALASKA and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.
- ALASKA conducts over million dollars worth of services trade with Canada each year. Over 52,000 ALASKANS work in the service, finance, insurance and real estate fields.
  - The FTA facilitates the entry of certain ALASKA business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.
  - The FTA enhances service trade opportunities for ALASKA businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.
  - The FTA covers dozens of services in the agriculture and forestry, mining, construction, distributive trade, insurance and real estate, and commercial service sectors.
  - ALASKA firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.
  - Future professional licensing and certification requirements for ALASKA residents providing professional services such as accountants and engineers will be based primarily on competence and ability--not citizenship.

- The FTA specifically continues in force the 1986 U.S.-Canada Memorandum of Understanding on Softwood Lumber and allows measures necessary to enforce it. This agreement concerning Canadian provincial pricing practices for stumpage resolved a subsidy case against imports of Canadian softwood lumber.

STATE STATISTICAL PROFILE: ALASKA

Population (July 1, 1987)	525,000
Area	591,004 square miles 1,530,700 square kilometers
State Personal Income ($ millions, 1986)	9,495

Nonagricultural Employees- Total and By Industry Groups (in 000s, October 1987)

Total:	212
Industry Groups:	
Mining	8
Construction	13
Manufacturing	12
Transportation and Public Utilities	18
Wholesale and Retail Trade	42
Finance, Insurance and Real Estate	11
Other Services	41
Government	67

Manufacturing Sector Employment- Total and Major Groups (1985)

Total:	7,600
Food and Kindred Products	2,100
Printing and Publishing	1,800
Lumber and Wood Products	1,300
Paper and Allied Products	500-999
Chemicals and Allied Products	250-499

Service Sector Employment- Total and Major Groups (1985)*

Total:	51,600
Health Services	9,100
Business Services	6,600
Miscellaneous Services	4,500
Social Services	4,500
Hotels and Lodging Places	3,800

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in ALASKA

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):	
All countries	$14,514
Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)	
All countries	130
Canada	35

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986):	$43,649
Leading ALASKA Exports to Canada:	
Fish and Marine Animals	$11,025
Crude Wood Materials	4,505
Precious Metals, Including Alloys	4,425
Measuring, Lab Equip., Etc.	2,439
Aircraft, Complete with Engines	2,278
Aircraft Parts, Except Engines	1,511
Fur Skins, Undressed	812
Track-Laying Tractors and Used Tractors	753
Ships, Boats and Parts, Except Engines	548
Organic & Inorganic Chemicals	508
Imports from Canada ($ 000s, 1986):	$80,039
Leading ALASKA Imports from Canada:	
Prefab. Buildings & Structures	13,454
Drilling, Excavating, Mining Mach.	10,631
Petroleum and Coal Products	5,185
Newsprint Paper	5,152
Other Motor Vehicles	2,886
Lumber, Softwood	2,807
Aircraft Parts, Except Engines	2,715
Other Crude Wood Parts	2,552
Metal Fabricated Basic Products	1,524
Sulfur	1,426

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT FOR ARIZONA

Prepared by

The Office of Canada
International Trade Administration
U.S. Department of Commerce (Room 3033)
Washington, D.C. 20230
(202) 377-3101

March 7, 1988

The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE ARIZONA-CANADA TRADING RELATIONSHIP

In 1986, Canada and ARIZONA traded over $388 million worth of commodities. ARIZONA exports almost twice as much to Canada as it imports from that country.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for ARIZONA arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, ARIZONA consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. ARIZONA manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- ARIZONA exported $256 million worth of commodities to Canada in 1986.
    - Major exports included various fresh vegetables; motor vehicle and aircraft components; electronic tubes and semiconductors; telecommunications and related equipment; navigation equipment; electronic computers; equipment and tools; rubber and plastic products; and medical and related supplies.
- ARIZONA imported $133 million worth of commodities from Canada in 1986.
    - Major imports included softwood lumber, wood fabricated materials; newsprint paper; aluminum; metal fabricated basic products; aircraft engines and parts; telecommunications equipment and related parts; medical supplies; office machines and equipment; and miscellaneous equipment and tools.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
    - ARIZONA service industry establishments recorded over $5.6 billion in revenues in 1982.
    - Major service industry employers include business services, health services, hotels and other lodging places, personal services, social services, and amusement and recreation services.

  - In 1986, 162,000 Canadian tourists spent $250 million in ARIZONA.

- More than one out of six ARIZONANS working in the manufacturing sector hold export-related positions. The state's manufacturing sector is more dependent on sales to other countries than is the United States as a whole, since only one in nine American manufacturing positions is related to exports.

  - $2.1 billion of ARIZONA manufacturing shipments are related to exports (1983).

  - In the ARIZONA manufacturing sector, 26,000 positions are dependent on exports (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- The two leading American export prospects to Canada in 1988, according to the U.S. Foreign Commercial Service, are among ARIZONA's top export items. 1986 sales to Canada of these products--various motor vehicle components and electronic computers--were $4.5 million and $57.8 million, respectively. Over 24,000 ARIZONANS are employed in the machinery industry, which produces many computer goods. Another 19,000 are employed in the manufacture of transportation equipment.

  - ARIZONA's motor vehicle engine and parts producers stand to profit from the staged elimination of the Canadian restriction on the importation of used American motor vehicles.

  - The ARIZONA auto sector also will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto PAct privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.

  - After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.

  - The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

  - The 3.9% Canadian duty on computers will end on January 1, 1989, increasing the price competitiveness of ARIZONA's electronic computer exports.

o With the expansion of government procurement opportunities through the FTA, ARIZONA firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

o In 1986, ARIZONA exported over $56 million in telecommunications and related equipment and electronic tubes and semiconductors. Telecommunications equipment and electronic equipment are among the top 10 U.S. export prospects to Canada during 1988. The electric and electronic equipment industry employs over 46,000 in the state, making it one of the largest ARIZONA manufacturing industries.

  - ARIZONA manufacturers of these products are well-poised to take advantage of the fast-growing Canadian market for electrical and telecommunications goods. The Free Trade Agreement will assist them through the staged elimination of all Canadian duties and the reduction of selected nontariff barriers in the enhanced telecommunications and computer services market.

o Another of the top export prospects to Canada in 1988 are aircraft and aircraft parts. In 1986, ARIZONA sold $27.3 million in aircraft engines, engine parts and other aircraft parts to Canada. As mentioned previously, over 19,000 ARIZONANS make their livelihood in the manufacture of transportation equipment.

  - The Free Trade Agreement assists the ARIZONA aircraft components industry through the staged elimination of the Canadian restriction on the importation of used aircraft from the United States.

- Investment by Canadian companies in ARIZONA is $933 million. Employment generated by Canadian investments is estimated to be over 8,500.
  - The FTA encourages additional ARIZONA investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both ARIZONA and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.
- ARIZONA conducts millions of dollars worth of services trade with Canada each year. Over 434,000 ARIZONANS work in the service, finance, insurance and real estate fields.
  - The FTA facilitates the entry of certain ARIZONA business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.
  - The FTA enhances service trade opportunities for ARIZONA businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.
  - The FTA covers dozens of services in the agriculture and forestry, mining, construction, distributive trade, insurance and real estate, and commercial service sectors.
  - ARIZONA firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.
  - The FTA ensures that open markets for tourists and tourism service providers will continue for this important ARIZONA industry. When the ARIZONA tourism industry provides services to a Canadian tourist, that is an "invisible" export.
  - Future licensing and certification requirements for ARIZONA residents providing professional services such as accountants and engineers will be based primarily on competence and ability--not citizenship.
- ARIZONA's largest import from Canada is newsprint paper. The state purchased $27.8 million of this commodity from Canada in 1986.

  - The Free Trade Agreement reaffirms the duty-free status of newsprint paper entering the United States from Canada on rolls. This assurance helps ARIZONA's newspapers, including its 19 dailies.

- ARIZONA exported over $22.4 million in fruit and vegetable products to Canada in 1986.

  - Fresh produce growers on ARIZONA's 9,000 farms will benefit from the FTA's phaseout of Canadian duties, as well as the eventual elimination of temporary tariffs on fresh fruits.

  - The Canadian and U.S. federal governments have agreed to "work together to improve access to each other's [agricultural] markets through the elimination or reduction of import barriers." This provision of the Agreement improves longer-term prospects for ARIZONA.

STATE STATISTICAL PROFILE: ARIZONA

Population (July 1, 1987)	3,386,000
Area	114,000 square miles 295,260 square kilometers
State Personal Income ($ millions, 1986)	44,719

Nonagricultural Employees- Total and By Industry Groups
(in 000s, October 1987)

Total:	1,385
Industry Groups:	
Mining	11
Construction	101
Manufacturing	186
Transportation and Public Utilities	71
Wholesale and Retail Trade	334
Finance, Insurance and Real Estate	92
Other Services	343
Government	246

Manufacturing Sector Employment- Total and Major Groups
(1985)

Total:	172,000
Electric and Electronic Eq.	46,200
Machinery, except Electrical	24,300
Transportation Equipment	19,700
Printing and Publishing	13,400
Primary Metal Industries	7,800

Service Sector Employment- Total and Major Groups
(1985)*

Total:	359,700
Health Services	73,000
Business Services	60,500
Hotels and other Lodging	26,600
Miscellaneous Services	20,800
Real Estate	19,300

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in ARIZONA

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$3,700
Canada	933

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	492
Canada	163

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986): $255,722

Leading ARIZONA Exports to Canada:

Electronic Computers	$ 57,826
Electronic Tubes and Semiconductors	41,096
Aircraft Engines, Engine Parts, and Other Aircraft Parts	27,279
Telecom. and Related Equipment	15,582
Various Fresh Vegetables	14,034
Navigation Equipment	9,944
Miscellaneous Equipment and Tools	6,001
Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	4,505
Rubber and Plastic Products	3,823
Medical and Related Supplies	3,779

Imports from Canada ($ 000s, 1986): $132,552

Leading ARIZONA Imports from Canada:

Newsprint paper	$ 27,791
Aircraft Engines, Engine Parts, and Other Aircraft Parts	14,439
Misc. Wood Fabricated Materials	8,758
Misc. Telecom. and Related Eq.	7,413
Office Machines and Equipment	6,214
Lumber, Softwood	4,918
Other Equipment and Tools	4,567
Metal Fabricated Basic Products	4,344
Measuring Containers, (Labs, Medical and Optical Equipment)	3,939
Aluminum Including Alloys	3,805

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

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BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT
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THE ARKANSAS-CANADA TRADING RELATIONSHIP

In 1986, Canada and ARKANSAS traded over $353.5 million worth of commodities.

Trade liberalizing accords, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increase their sales to each other. The opportunities for ARKANSAS arise through the United States-Canada Free Trade Agreement's phaseout of Canada's tariffs, on average the highest in the industrialized world, the elimination of various non-tariff barriers, and generally improved access to the Canadian market.

Through the FTA, ARKANSAS consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. The state's manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- ARKANSAS exported $145.0 million worth of commodities to Canada in 1986.
  - Major exports included motor vehicle parts; cereal and cereal preparations; miscellaneous equipment and tools; air conditioning and refrigeration equipment; plastics and chemical industry machinery; meat, fresh, chilled or frozen; electric generators and motors; service industry equipment; hand tools and cutlery; and paper and paperboard.
- ARKANSAS imported $208.5 million worth of commodities from Canada in 1986.
  - Major imports included aluminum, including alloys; synthetic rubber and plastics materials; equipment and tools; motor vehicle parts; woodworking machinery and equipment; electric generators and motors; softwood lumber; plate, sheet and strip metal; other general purpose industrial machines, and hand tools and miscellaneous cutlery.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
  - ARKANSAS service industry establishments recorded over $2.4 billion in revenues in 1982.
  - Major service industry employers include health, business, membership organizations, social, and hotel and lodging place services.

- In 1986, 17,600 Canadian tourists spent $1 million in ARKANSAS.

o Over one out of twelve ARKANSAS workers employed in the manufacturing sector hold export-related positions.

  - $2.4 billion of ARKANSAS' manufacturing shipments are related to exports (1983).

  - In the ARKANSAS manufacturing sector, 16,000 positions are dependent on exports.

IMPACT OF THE FREE TRADE AGREEMENT

o One of the two leading American export prospects to Canada in 1988, according to the U.S. Foreign Commercial Service in that country, is among ARKANSAS' top export items. 1986 sales to Canada of motor vehicle parts were over $15 million. Over 8,000 ARKANSAS residents are employed in the industry which manufactures transportation equipment.

  - The Free Trade Agreement assists ARKANSAS exporters of automobile parts through the phaseout of the Canadian restriction on the importation of used American motor vehicles, and the staged reduction of duties on certain after market parts by 1993

  - ARKANSAS' auto sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.

  - After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.

  - The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

- With the expansion of government procurement opportunities through the FTA, ARKANSAS firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

- ARKANSAS exported $11.8 million worth of cereals and cereal preparations and $5.6 million of fresh, chilled and frozen meats to Canada in 1986.

    - The FTA supports the ARKANSAS agriculture sector by phasing out agricultural tariffs, gradually eliminating Canadian import licenses for various grain products, reducing subsidies provided to grain products moving through western Canadian markets to the United States, and providing U.S. exporters of meat products an exemption from Canadian meat import laws (with certain conditions). These measures enhance Canadian sales opportunities for those working on ARKANSAS' 50,000 farms.

- Investment by Canadian companies in ARKANSAS is over $300 million. Employment generated by Canadian investments is estimated to be over 3,800.

    - The FTA encourages additional ARKANSAS investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both ARKANSAS and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

- ARKANSAS conducts millions of dollars worth of services trade with Canada each year. Over 193,000 ARKANSAS workers are employed in the service, finance, insurance and real estate fields.

    - The FTA facilitates the entry of certain ARKANSAS business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.

    - The FTA enhances service trade opportunities for ARKANSAS businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

  - The FTA covers dozens of services in the agriculture and forestry; mining; construction; distributive trade; insurance and real estate; and commercial service sectors.
  - ARKANSAS firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.
  - Future licensing and certification requirements for ARKANSAS residents providing professional services (such as accountants and engineers) will be based primarily on competence and ability--not citizenship.

- In 1986, ARKANSAS exported to Canada over $27 million worth of equipment and tools, air conditioning and refrigeration equipment, plastics and chemical industry machinery, electric motor and generators, and service industry equipment. Over 54,000 ARKANSAS workers are employed in the three industries responsible for the manufacture of many of these products: fabricated metal products, machinery, and electric and electronic equipment.
  - ARKANSAS' export opportunities expand in these industries with the FTA's staged elimination of Canadian duties, which have limited the sales potential of such goods in Canada's market.
- In 1986, ARKANSAS imported over $111 million worth of aluminum (including alloys) from Canada. This represents the state's major import from Canada, accounting for over half of all purchases from that country.
  - The FTA reduces duties on all metals entering the United States from Canada. This will lower costs of ARKANSAS' manufacturers who depend on such metals in the production of their various finished commodities.
- The FTA specifically continues in force the 1986 U.S.-Canada Memorandum of Understanding on Softwood Lumber and allows measures necessary to enforce it. This agreement concerning Canadian provincial pricing practices for stumpage resolved a subsidy case against imports of Canadian softwood lumber.

STATE STATISTICAL PROFILE: ARKANSAS

Population (July 1, 1987)	2,388,000
Area	53,187 square miles 137,754 square kilometers

State Personal Income ($ millions, 1986)

Total:	$26,268

Nonagricultural Employees- Total and By Industry Groups
(in 000s, October 1987)

Mining	4
Construction	36
Manufacturing	224
Transportation and Public Utilities	53
Wholesale and Retail Trade	196
Finance, Insurance and Real Estate	38
Other Services	155
Government	150

Manufacturing Sector Employment- Total and Major Groups
(1985)

Total:	200,100
Food and Kindred Products	33,400
Electric & Electronic Equip.	22,900
Lumber and Wood Products	17,900
Fabricated Metal Products	16,300
Machinery, Except Electrical	15,500

Service Sector Employment- Total and Major Groups
(1985)*

Total:	169,500
Health Services	52,800
Business Services	15,300
Banking	12,600
Membership Organizations	12,000
Social Services	11,400

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in ARKANSAS

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$1,069
Canada	307

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	259
Canada	48

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986): $145,025*

Leading ARKANSAS Exports to Canada:

Motor Vehicle Parts, Except Engines	15,551
Various Cereal and Cereal Preparations	11,762
Miscellaneous Equipment and Tools	11,600
Air Conditioning and Refrigeration Equipment	10,482
Plastics and Chemical Industry Machinery	5,930
Meat, Fresh, Chilled or Frozen	5,625
Electric Generators and Motors	5,192
Service Industry Equipment	3,924
Hand Tools and Cutlery	3,418
Paper and Paperboard	3,376

Imports from Canada ($ 000s, 1986): $208,533

Leading ARKANSAS Imports from Canada:

Aluminum, Including Alloys	111,608
Synthetic Rubber & Plastics Materials	15,224
Miscellaneous Equipment and Tools	5,984
Motor Vehicle Parts, Except Engine	5,906
Softwood Lumber	4,392
Woodworking Machinery & Equipment	4,188
Electric Generators and Motors	3,722
Plate, Sheet and Strip Steel	3,202
General Purpose Industrial Machines	3,143
Hand Tools and Misc. Cutlery	2,622

** It is likely that exports from the State of ARKANSAS to Canada are underestimated. Approximately one out of every seven dollars worth of U.S. exports to Canada cannot be assigned to a state. Most of these exports are automotive products, which are among ARKANSAS' leading exports to Canada.

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

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THE CALIFORNIA-CANADA TRADING RELATIONSHIP

In 1986, Canada and CALIFORNIA traded $5.4 billion worth of commodities. While the United States as a whole traditionally maintains a goods trade deficit with Canada, CALIFORNIA exports 42% more to Canada than it imports from that country. If CALIFORNIA were an independent country, it would rank as Canada's third major trading partner (after the U.S. and Japan). CALIFORNIA is fifth among U.S. states in total goods trade with Canada.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for CALIFORNIA arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, CALIFORNIA consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. CALIFORNIA manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- CALIFORNIA exported $3.2 billion worth of commodities to Canada in 1986.
    - Major exports included aircraft engines, engine parts, and other aircraft parts; fresh oranges, mandarins and tangerines; other fresh fruits and vegetables; miscellaneous telecommunications and related equipment; electronic computers; and motor vehicle engines and parts.
- CALIFORNIA imported $2.2 billion worth of commodities from Canada in 1986.
    - Major imports included aircraft engines and parts; newsprint paper; miscellaneous telecommunications and related equipment; office machines and equipment; fresh, chilled or frozen meat; firearms ammunitions and ordnance; and petroleum and coal products.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
    - On a national per capita basis, CALIFORNIA's 27.7 million residents would be expected to account for $2.9 billion of this trade.

  - CALIFORNIA service industry establishments recorded over $74 billion in revenues in 1982.
  - Major service industry employers include health, educational, social, hotel and lodging place, personal, and business services.
  - In 1986, 683,000 Canadian tourists spent $235 million in CALIFORNIA.

- CALIFORNIA relies more heavily upon foreign markets for its manufacturing products than the United States as a whole. Of CALIFORNIA's two million manufacturing jobs, 12.4% are export related. This compares to a national average of 11.0%.
  - Export-related manufacturers' shipments totalled $25.4 billion in 1983.
  - One-quarter-of-a-million CALIFORNIA manufacturing jobs are export-related (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- The four leading American export prospects to Canada in 1988, according to the U.S. Foreign Commercial Service in that country, are among CALIFORNIA'S top ten export items. Sales to Canada of these four products--computers, motor vehicle engines and parts, aircraft parts, and telecommunications equipment--topped $1 billion in 1986. Over 287,000 CALIFORNIANS are employed in the transportation equipment manufacturing industry. Another 714,000 work in the industries where many of the telecommunications and computer goods are produced (in the machinery, electric and electronic equipment, and the instruments and related products industries).
  - The duties on most replacement auto parts will be eliminated by 1993, and a higher North American content rule will encourage the sale of these parts to Canadian car manufacturers.
  - CALIFORNIA's auto sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.

- After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.

- The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

- CALIFORNIA auto parts and aircraft parts producers will both benefit from the phase out of Canadian import restrictions on used motor vehicles and aircraft from the United States.

- The Canadian duties on computers, private branch exchanges (PBXs) and modems, will end on January 1, 1989, and the FTA provisions on enhanced telecommunications and computer services ensure further development of an open and competitive Canadian market, including access to the use of the basic network.

o With the expansion of government procurement opportunities through the FTA, CALIFORNIA firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

o CALIFORNIA exported over $438 million worth of fresh grapes, oranges, mandarins, tangerines, other fresh fruits and berries and miscellaneous fresh vegetables to Canada in 1986.

- Fresh produce growers on CALIFORNIA's 79,000 farms will benefit from the FTA's phase out of Canadian tariffs and temporary duties on fresh fruits and vegetables.

- The Canadian and U.S. federal governments agree to "work together to improve access to each other's [agricultural] markets through the elimination or reduction of import barriers." This accord improves longer-term prospects for CALIFORNIA fruit and vegetable exporters.

- CALIFORNIA imported over $72 million in petroleum and coal products, bitumin substances and electricity from Canada in 1986.
  - The Free Trade Agreement provides for free bilateral energy trade, ensuring CALIFORNIA nondiscriminatory access to energy supplies. The FTA's energy provisions guarantee that Canada will not restrict exports, impose export taxes or establish export price requirements, subject to very limited national security and short supply exceptions.
- Investment by Canadian companies in CALIFORNIA is $5.6 billion. Employment generated by Canadian investments is estimated to be over 30,000.
  - The FTA encourages additional CALIFORNIA investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both CALIFORNIA and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.
- CALIFORNIA maintains 51,000 jobs in the "instruments and related products" industry. In 1986, the state sold over $61 million worth of miscellaneous measuring (including laboratory) devices to Canada.
  - The FTA supports CALIFORNIA's exports of these instruments through the staged reduction of Canadian duties. The elimination of these tariff--and other nontariff--barriers will help to make CALIFORNIA measuring equipment more competitive in the Canadian market.
- CALIFORNIA conducts billions of dollars worth of services trade with Canada each year. Over 3.7 million CALIFORNIANS work in the service, finance, insurance and real estate fields.
  - The FTA facilitates the entry of certain CALIFORNIA business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise without the customs delays that now exist.

  - The FTA enhances service trade opportunities for CALIFORNIA businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.
  - The FTA covers dozens of service sectors, including farm management, advertising and promotional, public relations, forestry, building, insurance agency, construction, personnel supply, hotel management, real estate, tourism and computer services.
  - CALIFORNIA firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.
  - Future licensing and certification requirements for CALIFORNIA residents providing professional services (such as accountants and engineers) will be based on primarily on competence and ability--not citizenship.
  - The FTA ensures that open markets for tourists and tourism service providers will continue for this important CALIFORNIA industry. When the CALIFORNIA tourism industry provides services to a Canadian tourist, that is an "invisible" export.

- The Free Trade Agreement assures retransmission rights for American broadcasters. Specifically, Canada's copyright law will provide each U.S. copyright holder with a right of equitable and non-discriminatory remuneration for any retransmission to the public of the copyrighter's programs (where the original transmission of the programs are carried in distant signals intended for free, over-the-air reception by the general public).

- CALIFORNIA exported over $7.7 million worth of miscellaneous beverages to Canada in 1986, including wine.
  - CALIFORNIA wineries will profit from the phase out of tariffs on all alcoholic beverages, and the staged elimination of Canada's discriminatory pricing system for wines. CALIFORNIA producers will also gain increased access to the distribution and marketing network in Canada as a result of FTA's provisions.

- The FTA specifically continues in force the 1986 U.S.-Canada Memorandum of Understanding on Softwood Lumber and allows measures necessary to enforce it. This agreement concerning Canadian provincial pricing practices for stumpage resolved a subsidy case against imports of Canadian softwood lumber.

STATE STATISTICAL PROFILE: CALIFORNIA

Population (July 1, 1987)	27,663,000
Area	158,706 square miles 411,049 square kilometers

Gross State Product ($ millions, 1986)

Total:	$589,900

Nonagricultural Employees- Total and By Industry Groups
(000s, October 1987)

Total:	11,825
Industry Groups:	
Mining	40
Construction	589
Manufacturing	2,100
Transportation and Public Utilities	592
Wholesale and Retail Trade	2,875
Finance, Insurance and Real Estate	795
Other Services	2,927
Government	1,907

Manufacturing Sector Employment- Total and Major Groups
(000s, 1985)

Total:	2,102
Electric and Electronic Equip.	378
Transportation Equipment	287
Machinery (Except Electrical)	244
Fabricated Metal Products	150
Printing and Publishing	141

Service Sector Employment- Total and Major Groups
(000s, 1985)*

Total:	3,354
Health Services	648
Business Services	623
Banking	177
Real Estate	170
Educational Services	151

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in CALIFORNIA

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$34,704
Canada	5,574

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	2,269
Canada	234

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986): $3,192,424**

Leading CALIFORNIA Exports to Canada:

Electric Computers	$646,348
Aircraft Engines, Engine Parts, and Aircraft Parts	229,580
Miscellaneous Fresh Vegetables	169,337
Other Telecommunications and Related Equipment	154,212
Electric Tubes and Semiconductors	150,248
Misc. Fresh Fruits and Berries	120,516
Fresh Grapes	78,043
Fresh Oranges, Mandarins, and Tangerines	70,174
Motor Vehicle Engines, Engine Parts, and Motor Vehicle Parts	68,427
Misc. Measuring (e.g. Lab Equipment) Devices	61,589

Imports from Canada ($ 000s, 1986): $2,243,197

Leading CALIFORNIA Imports from Canada:

Aircraft Engines, Engine Parts and Aircraft Parts	$401,833
Newsprint Paper	351,270
Other Telecommunications and Related Equipment	121,909
Softwood Lumber	80,523
Office Machines and Equipment	70,178
Meat, Fresh, Chilled or Frozen	61,979
Petroleum and Coal Products	61,349
Firearms, Ammunition and Ordnance	56,496
Navigation Equipment and Parts	52,423
Motor Vehicle Engines, Engine Parts, and Motor Vehicle Parts	48,436

** It is likely that exports from the State of CALIFORNIA to Canada are underestimated. Approximately one out of every seven dollars worth of U.S. exports to Canada cannot be assigned to a state. Most of these exports are automotive products, which are among CALIFORNIA's leading exports to Canada.

Sources: Statistics Canada, U.S. Department of Commerce, U.S. Department of Labor and the University of California at Los Angeles.

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT FOR COLORADO

Prepared by

The Office of Canada
International Trade Administration
U.S. Department of Commerce (Room 3033)
Washington, D.C. 20230
(202) 377-3101

March 7, 1988

The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE COLORADO-CANADA TRADING RELATIONSHIP

In 1986, Canada and COLORADO traded over $412 million worth of commodities. The state runs a small surplus in its goods trade with Canada.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for COLORADO arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, COLORADO consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. COLORADO manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- COLORADO exported $207 million worth of commodities to Canada in 1986.
  - Major exports included electronic computers, medical and related equipment, telecommunications equipment, unexposed film, plates and paper, motor vehicle engines, engine parts, and other motor vehicle parts, measuring and lab equipment, electronic tubes and semiconductors, and electrical equipment.
- COLORADO imported $205 million worth of commodities from Canada in 1986.
  - Major imports included newsprint paper, office machines and equipment, lumber and softwood, photographic goods, shingles and shakes, paper for printing, equipment and tools, and telecommunication equipment.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
  - COLORADO service industry establishments recorded over $8.2 billion in revenues in 1982.
  - Major service industry employers include business services, health services, hotels and other lodging places, personal services, and auto repair, services and garages.

- In 1986, 73,300 Canadian tourists spent $13 million in COLORADO.

o About one out of seven COLORADO manufacturing jobs is dependent on exports to other countries. This makes export trade more important to COLORADO than the nation as a whole, since only about one in nine U.S. manufacturing jobs is related to exports.

- $2.3 billion in COLORADO manufacturing shipments are related to exports (1983).

- In the COLORADO manufacturing sector, 27,000 positions are dependent on exports.

IMPACT OF THE FREE TRADE AGREEMENT

o The two leading American export prospects to Canada in 1988, according to the U.S. Foreign Commercial Service in that country, are among COLORADO's top export items. 1986 sales to Canada of these products--various motor vehicle components and electronic computers--were $7.0 million and $49.3 million, respectively. Over 28,000 COLORADANS are employed in the machinery industry, which produces many computer goods, and ranks as the largest of the state's manufacturing industries. Over 10,000 workers are employed in the manufacture of transportation equipment.

- COLORADO auto component manufacturers will benefit from the phaseout of Canadian import restrictions on used motor vehicles from the United States, and the elimination of duties on replacement auto parts by 1993.

- COLORADO's auto sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.

- After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.

  - The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

  - The 3.9% Canadian duty on computers will end on January 1, 1989, increasing the price competitiveness of COLORADO'S electronic computer exports.

- With the expansion of government procurement opportunities through the FTA, COLORADO firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

- COLORADO's largest import from Canada--newsprint paper--totalled $51.6 million in 1986, or about one-quarter of all purchases from Canada. There are 29 daily newspapers, and numerous others of varying publication frequency in COLORADO (as of 1985).

  - The Free Trade Agreement ensures that Canadian newsprint in rolls--which currently enters the United States without tariff--will continue to receive duty free treatment in the years ahead. This will provide additional security to those employed in newspaper publishing who depend on access to this commodity.

- Investment by Canadian companies in COLORADO is $1.9 billion. Employment generated by Canadian investments is estimated to be over 7,500.

  - The FTA encourages additional COLORADO investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both COLORADO and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

- COLORADO conducts millions of dollars worth of services trade with Canada each year. Over 418,000 million COLORADANS work in the service, finance, insurance and real estate fields.

  - The FTA facilitates the entry of certain COLORADO business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.

- The FTA enhances service trade opportunities for COLORADO's businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

- The FTA covers dozens of services in the agriculture and forestry; mining; construction; distributive trade; insurance and real estate; and commercial service sectors.

- COLORADO firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.

- Future licensing and certification requirements for COLORADO residents providing professional services such as accountants and engineers will be based primarily on competence and ability--not citizenship.

o In 1986, COLORADO exported over $19 million in electrical property measuring instruments, telecommunications and related equipment, and electronic tubes and semiconductors. Telecommunications equipment and electronic components are among the top U.S. export prospects for 1988. Over 41,000 COLORADANS are employed in the electronic and electric equipment and the instruments and related products industries.

  - COLORADO'S opportunities expand in these fast-growing sectors with the gradual elimination of duties on all of these products. In addition, FTA provisions on enhanced telecommunications and computer services ensure further development of an open and competitive Canadian market, including access to and the use of the basic telecommunications network.

o In 1986, COLORADO exported $8.1 million in aircraft, aircraft engines, engine parts, and other aircraft parts. As mentioned earlier, over 10,000 COLORADANS work in the transportation equipment manufacturing industry.

  - The FTA enhances export opportunities for COLORADO aircraft and aircraft component manufacturers with the phaseout of the Canadian import restriction against used aircraft.

- COLORADO exported nearly $5 million worth of oil and gas mining equipment to Canada in 1986. About 28,000 COLORADO workers are employed in the manufacture of machinery, including oil and gas mining equipment. This industry is the largest employer among the state's manufacturing industries.
  - The Free Trade Agreement provides for free bilateral energy trade, thus encouraging greater bilateral sales of energy products to Canada and the United States. Increased mining, oil and gas exploration and recovery could lead to increased sales for COLORADO exporters of equipment used in the energy sector.
- The FTA specifically continues in force the 1986 U.S.-Canada Memorandum of Understanding on Softwood Lumber and allows measures necessary to enforce it. This agreement concerning Canadian provincial pricing practices for stumpage resolved a subsidy case against imports of Canadian softwood lumber.

STATE STATISTICAL PROFILE: COLORADO

Population (July 1, 1987)	3,296,000
Area	104,091 square miles 296,596 square kilometers
State Personal Income ($ millions, 1986)	49,771

Nonagricultural Employees- Total and By Industry Groups (in 000s, October 1987)

Total:	1,400
Industry Groups:	
Mining	24
Construction	72
Manufacturing	86
Transportation and Public Utilities	89
Wholesale and Retail Trade	349
Finance, Insurance and Real Estate	97
Other Services	321
Government	264

Manufacturing Sector Employment- Total and Major Groups (1985)

Total:	195,500
Machinery, Except Electrical	28,000
Electric and Electronic Eq.	21,500
Printing and Publishing	21,300
Food and Kindred Products	21,300
Fabricated Metal Products	17,400

Service Sector Employment- Total and Major Groups (1985)*

Total:	416,000
Health Services	77,100
Business Services	72,400
Hotels and other Lodging	28,700
Miscellaneous Services	26,900
Real Estate	23,900

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in COLORADO

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$4,561
Canada	1,902

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	625
Canada	174

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986): $207,975

Leading COLORADO Exports to Canada:

Electronic Computers	$49,293
Medical and Related Equipment	11,789
Other Telecom. and Related Equip.	8,943
Unexposed Film, Plates, and Paper	7,728
Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	7,027
Measuring (e.g. Lab Equipment)	5,427
Electronic Tubes and Semiconductors	5,312
Electrical Property Measuring Instr.	5,161
Aircraft, Complete with Engines	5,153
Mining, Oil and Gas Machinery	4,942

Imports from Canada ($ 000s, 1986): $204,748

Leading COLORADO Imports from Canada:

Newsprint Paper	$51,646
Office Machines and Equipment	22,248
Lumber, Softwood	14,229
Photographic Goods	11,102
Shingles and Shakes	7,673
Paper for Printing	7,191
Equipment and Tools	6,834
Telecom. and Related Eq.	6,373
Various Transportation Equipment	4,883
Drilling, Excavating, Mining Mach.	4,215

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

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THE CONNECTICUT-CANADA TRADING RELATIONSHIP

In 1986, Canada and CONNECTICUT traded over $1.6 billion worth of commodities.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for CONNECTICUT arise through the Free Trade Agreement's phaseout of Canadian tariffs, the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, CONNECTICUT's consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. CONNECTICUT manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- CONNECTICUT exported $831 million worth of commodities to Canada in 1986.
    - Major exports included aircraft engines, engine parts and other aircraft parts; precious metals, including alloys; electronic computers; motor vehicle engine parts; organic and inorganic chemicals; miscellaneous inedible end products; crude petroleum; miscellaneous equipment and tools; and bearings.
- CONNECTICUT imported $850 million worth of commodities from Canada in 1986.
    - Major imports included printed matter; newsprint paper; copper and alloys; aircraft engines and parts; softwood lumber; crude petroleum; other non-metalic mineral basic products; telecommunications and related equipment; metal fabricated basic products; and complete aircraft.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
    - On a national per capita basis, CONNECTICUT's 3.2 million residents would be expected to account for $335 million of this trade. However, given the importance of the state's service sector, it is possible the CONNECTICUT's services trade total with Canada is much higher than this figure.
    - CONNECTICUT service industry establishments recorded over $7.3 billion in revenues in 1982.

- Major service industry employers include health, educational, social, hotel and lodging place, personal, and business services.
- In 1986, 116,000 Canadian tourists spent $10 million in CONNECTICUT.

o CONNECTICUT relies more heavily upon foreign markets for its manufacturing products than the United States as a whole. Of CONNECTICUT's 391,000 manufacturing jobs, almost 14 percent are export related. This compares to a national average of 11.0%.

- Export-related manufacturers' shipments totalled $4.8 billion in 1983.
- CONNECTICUT maintains over fifty thousand manufacturing positions which are dependent on exports (1983).

IMPACT OF THE FREE TRADE AGREEMENT

o Two of the top three American export prospects to Canada in 1988, according to the U.S. Foreign Commercial Service in that country, are among CONNECTICUT's top export items. Sales to Canada of these products--various motor vehicle components and aircraft engines, engine parts, and other aircraft parts--topped $164 million in 1986. This figure represents about one-fifth of CONNECTICUT's exports to Canada. Over 82,000 workers are employed in the manufacture of transportation equipment, making this industry the largest in CONNECTICUT's manufacturing sector.

- CONNECTICUT automobile and aircraft component producers will both gain from the phaseout of Canadian import restrictions on used motor vehicles and aircraft from the U.S., and the staged elimination of duties on all transportation equipment parts.
- CONNECTICUT's auto sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.
- After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose

not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.

  - The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

o The leading American export prospect to Canada for 1988 is also one of CONNECTICUT's major export items to that country--computers. The state sold over $34 million worth of electronic computers to Canada in 1986. CONNECTICUT's machinery industry, which produces computer products, is the state's second largest manufacturing industry, employing over 50,000.

  - The Canadian duty on computers (3.9%) will end on January 1, 1989, increasing the price competitiveness of CONNECTICUT computer exports.

o CONNECTICUT exported $26 million worth of organic and miscellaneous inorganic chemicals to Canada in 1986. Chemicals are ranked among that top 20 export prospects to Canada in 1988. Over 14,000 workers are employed in the CONNECTICUT industry that manufactures chemicals and allied products.

  - CONNECTICUT exporters of chemical products will become more price competitive in the Canadian market as duties on their products are phased out by the provisions of the Free Trade Agreement.

o With the expansion of government procurement opportunities through the FTA, CONNECTICUT firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

o CONNECTICUT imported over $27 million in crude petroleum from Canada in 1986.

  - The Free Trade Agreement provides for free bilateral energy trade, ensuring CONNECTICUT nondiscriminatory access to energy supplies. The FTA's energy provisions guarantee that Canada will not restrict exports, impose export taxes or establish export price requirements, subject to very limited national security and short supply exceptions.

- Investment by Canadian companies in CONNECTICUT is $335 million. Employment generated by Canadian investments is estimated to be over 5,000.

  - The FTA encourages additional CONNECTICUT investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both CONNECTICUT and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

- CONNECTICUT carries on hundreds of millions of dollars worth of bilateral services trade with Canada each year. Over half a million people are employed in CONNECTICUT's service, finance, insurance and real estate fields.

  - The FTA facilitates the entry of certain CONNECTICUT business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.

  - The FTA enhances service trade opportunities for CONNECTICUT businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

  - The FTA covers dozens of services in the agriculture and forestry, mining, construction, distributive trade, insurance and real estate, and commercial service sectors.

  - CONNECTICUT firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.

  - Future licensing and certification requirements for CONNECTICUT residents providing professional services (such as accountants and engineers) will be based primarily on competence and ability--not citizenship.

STATE STATISTICAL PROFILE: CONNECTICUT

Population (July 1, 1987)	3,211,000
Area	5,018 square miles 12,997 square kilometers

Gross State Product ($ millions, 1985)

Total:	$76,247

Nonagricultural Employees- Total and By Industry Groups (in 000s, October 1987)

Total:	1,664
Industry Groups:	
Mining	2
Construction	77
Manufacturing	391
Transportation and Public Utilities	74
Wholesale and Retail Trade	380
Finance, Insurance and Real Estate	147
Other Services	391
Government	203

Manufacturing Sector Employment- Total and Major Groups (in 000s, 1985)

Total:	421
Transportation Equipment	83
Machinery, Except Electrical	51
Electric and Electronic Equip.	49
Administrative and Auxiliary	107
Printing and Publishing	99

Service Sector Employment- Total and Major Groups (in 000s, 1985)*

Total:	477
Health Services	115
Business Services	75
Insurance Carriers	59
Educational Services	37
Banking	87

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in CONNECTICUT

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$1,868
Canada	335

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	412
Canada	46

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986):	$830,717**

Leading CONNECTICUT Exports to Canada:

Aircraft Engines and Parts	$ 78,593
Precious Metals, Including Alloys	78,243
Aircraft Parts, Excluding Engines	59,780
Electronic Computers	34,495
Motor Vehicle Engine Parts	25,647
Organic and Inorganic Chemicals	25,570
Other End Products, Inedible	21,760
Crude Petroleum	19,703
Miscellaneous Equipment and Tools	19,651
Bearings	17,871

Imports from Canada ($ 000s, 1986):	$850,361

Leading CONNECTICUT Imports from Canada:

Printed Matter	$123,595
Newsprint Paper	92,119
Copper and Alloys	91,286
Aircraft Engines and Parts	67,068
Softwood Lumber	57,253
Crude Petroleum	26,934
Other Non-metalic Mineral Basic Products	22,046
Telecommunications and Related Equipment	21,660
Metal Fabricated Basic Products	18,959
Aircraft Complete with Engines	18,608

** It is likely that exports from the State of CONNECTICUT to Canada are underestimated. Approximately one out of every seven dollars worth of U.S. exports to Canada cannot be assigned to a state. Most of these exports are automotive products, which are among CONNECTICUT's leading exports to Canada.

Sources: Statistics Canada, Federal Reserve Bank of Boston, U.S. Department of Commerce and U.S. Department of Labor.

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BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT
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THE DELAWARE-CANADA TRADING RELATIONSHIP

In 1986, Canada and DELAWARE traded over $641 million worth of commodities. Whereas the United States as a whole traditionally has a goods trade deficit with Canada, DELAWARE exports over one-and-a-half times as much to Canada as it imports from that country.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for DELAWARE arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, DELAWARE consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. DELAWARE manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- DELAWARE exported over $390 million worth of commodities to Canada in 1986.
    - Major exports included precious metals, including alloys; plastics materials, not shaped; plastic film and sheet; unexposed photo film, plates and paper; man-made fibers; organic and inorganic chemicals; other chemical products; man-made fiber yarn and thread; and synthetic and reclaimed rubber.
- DELAWARE imported over $251 million worth of commodities from Canada in 1986.
    - Major imports included motor vehicle parts; precious metals, including alloys; softwood lumber; motor vehicle engines, engine parts and other motor vehicle parts; aircraft; newsprint paper; metalworking machinery; sugar and sugar preparations; organic chemicals; and materials handling machinery and equipment.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
    - On a national per capita basis, DELAWARE's 644,000 residents would be expected to account for $67.2 million of this trade.

  - DELAWARE service industry establishments recorded over $1 billion in revenues in 1982.
  - Major service industry employers include health, business, social, membership organizations, and educational services.
  - In 1986, 28,800 Canadian tourists spent $3 million in DELAWARE.

- Nearly one out of eight DELAWARE workers employed in the manufacturing sector hold positions related to exports to other countries.
  - $1.1 billion of DELAWARE manufacturing shipments are related to exports (1983).
  - In the DELAWARE manufacturing sector, approximately 8,000 jobs depend on exports (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- Major DELAWARE exports to Canada include organic chemicals, inorganic chemicals and miscellaneous chemical products. In 1986, the state exported over $34 million worth of these products to Canada. The United States Foreign Commercial Service reports that industrial organic and inorganic chemicals are among the top 20 American export prospects to Canada in 1988. The DELAWARE chemicals and allied products industry employs over 7,000 workers, making it one of the largest manufacturing industries in the state.
  - The Free Trade Agreement gives a boost to DELAWARE firms which export chemical products by phasing out the Canadian tariffs on these goods. Chemical duties will be eliminated in stages, some by January 1, 1993, and all others by January 1, 1998.
- With the expansion of government procurement opportunities through the FTA, DELAWARE firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.
- In 1986, DELAWARE sold over $97 million in unshaped plastic materials and plastic film and sheet to Canada. Plastic materials and resins are rated among the top 10 U.S. export prospects to Canada during 1988. Over 2,300 workers are employed in DELAWARE's rubber and plastics manufacturing industry.

  - The Free Trade Agreement eliminates the duties on primary plastics within five years of the implementation of the accord. Duties on other plastic and rubber products will be reduced by ten percent each year until their elimination in 1998.

- Investment by foreign companies in DELAWARE is over $2.7 billion. Employment generated by foreign investments is estimated to be over 35,000. Twenty-four of the 155 foreign affiliates in DELAWARE with property, plant and equipment are Canadian.

  - The FTA encourages additional DELAWARE investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both DELAWARE and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

- DELAWARE conducts millions of dollars worth of services trade with Canada each year. Over 97,000 DELAWARE workers are employed in the service, finance, insurance and real estate fields.

  - The FTA facilitates the entry of certain DELAWARE business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.

  - The FTA enhances service trade opportunities for DELAWARE businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

  - The FTA covers dozens of services in the agriculture and forestry, mining, construction, distributive trade, insurance and real estate, and commercial service sectors.

  - DELAWARE firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.

  - Future licensing and certification requirements for DELAWARE residents providing professional services such as accountants and engineers will be based primarily on competence and ability--not citizenship.

- In 1986, DELAWARE imported over $8.7 million worth of newsprint paper.
  - The FTA provides further assurance that Canadian newsprint in rolls will continue to enter the United States duty free in the years ahead. This will additional security to those working for DELAWARE's newspapers, including its three dailies.

STATE STATISTICAL PROFILE: DELAWARE

Population (July 1, 1987)	644,000
Area	2,045 square miles 5,295 square kilometers
State Personal Income ($ millions, 1986)	$9,498

Nonagricultural Employees- Total and By Industry Groups
(in 000s, October 1987)

Total:	320
Industry Groups:	
Construction	20
Manufacturing	70
Transportation and Public Utilities	13
Wholesale and Retail Trade	73
Finance, Insurance and Real Estate	25
Other Services	72
Government	47

Manufacturing Sector Employment- Total and Major Groups
(1985)

Total:	71,200
Administrative and Auxiliary	24,000
Food and Kindred Products	8,700
Chemicals and Allied Products	7,100
Paper and Allied Products	3,000
Instruments and Related Prod.	3,000

Service Sector Employment- Total and Major Groups
(1985)*

Total:	78,100
Health Services	17,500
Business Services	13,000
Banking	8,300
Membership Organizations	4,600
Educational Services	3,200

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in DELAWARE

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):	
All countries	$2,790
Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)	
All countries	155
Canada	24

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986):	$390,615
Leading DELAWARE Exports to Canada:	
Precious Metals, Including Alloys	110,182
Plastic Materials, not Shaped	65,066
Plastic Film and Sheet	32,059
Unexposed Photo Film, Plates and Paper	27,693
Man-made Fibers	22,167
Organic Chemicals	20,120
Other Chemical Products	16,236
Man-made Fiber Yarn and Thread	11,531
Inorganic Chemicals	7,864
Synthetic and Reclaimed Rubber	7,391

Imports from Canada ($ 000s, 1986):	$251,335
Leading DELAWARE Imports from Canada:	
Motor Vehicle Parts, Except Engines	76,848
Precious Metals, Including Alloys	38,948
Lumber, Softwood	28,947
Motor Vehicle Engines and Engine Parts	10,974
Aircraft Complete with Engines	10,706
Newsprint Paper	8,715
Metalworking Machinery	7,920
Sugar and Sugar Preparations	6,498
Organic Chemicals	5,470
Materials Handling Machinery and Equipment	4,916

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

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International Trade Administration
Washington, D.C. 20230

BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT FOR THE DISTRICT OF COLUMBIA

Prepared by

The Office of Canada
International Trade Administration
U.S. Department of Commerce (Room 3033)
Washington, D.C. 20230
(202) 377-3101

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The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE DISTRICT OF COLUMBIA-CANADA TRADING RELATIONSHIP

In 1986, Canada and the DISTRICT OF COLUMBIA traded over $73 million worth of commodities. Whereas the United States tends to run a deficit in its goods trade with Canada, the DISTRICT exports over 41% more to Canada than it imports.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for the DISTRICT OF COLUMBIA arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, the DISTRICT OF COLUMBIA's consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. D.C.'s manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- The DISTRICT OF COLUMBIA exported $43 million worth of commodities to Canada in 1986.
  - Major exports included aircraft; books and pamphlets; electronic computers; foods; newspapers, magazines and periodicals; electronic tubes and semiconductors; rubber and plastic products; and materials handling equipment.
- The DISTRICT OF COLUMBIA imported $31 million worth of commodities from Canada in 1986.
  - Major imports included newsprint paper; various equipment and tools; office machines and equipment; non-metal mineral basic products; meat; beverages; telecommunications and related equipment; electric lighting equipment; special industry machinery; and measuring lab equipment.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
  - On a national per capita basis, D.C.'s 622,000 residents would be expected to account for $64 million of this trade.
  - D.C. service industry establishments recorded over $7.4 billion in revenues in 1982.

  - Major service industry employers include hotels and other lodging places, business services, health services, personal services, and social services.
  - In 1986, 90,000 Canadian tourists spent $19 million in D.C.

- Nearly one out of twenty-five WASHINGTONIANS working in the manufacturing sector hold export-related positions.
  - Approximately $100 million worth of the DISTRICT OF COLUMBIA's manufacturing shipments are related to shipments to other countries (1983).
  - In the D.C. manufacturing sector, about 1,000 positions are dependent on exports (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- The leading American export prospect to Canada in 1988, according to the U.S. Foreign Commercial Service in that country, is among D.C.'S top export items. 1986 sales to Canada of these electronic computers were $675,000. Over 200 WASHINGTONIANS are employed in the machinery industry, which produces many computer goods.
  - The 3.9% Canadian duty on computers will end on January 1, 1989, increasing the price competitiveness of the DISTRICT OF COLUMBIA's electronic computer exports. In addition, FTA provisions on enhanced telecommunications and computer services ensure further development of an open and competitive Canadian market, including access to and the use of the basic telecommunications network.
- With the expansion of government procurement opportunities through the FTA, D.C. firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.
- Investment by Canadian companies in the DISTRICT OF COLUMBIA is $174 million. Employment generated by Canadian investments is estimated to be over 1,300.
  - The FTA encourages additional DISTRICT investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both DISTRICT and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.
- D.C. conducts millions of dollars worth of services trade with Canada each year. Over 269,900 WASHINGTONIANS work in the service, finance, insurance and real estate fields.

  - The FTA facilitates the entry of certain WASHINGTON business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.

  - The FTA enhances service trade opportunities for D.C. businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

  - The FTA covers dozens of services in the agriculture and construction, distributive trade, insurance and real estate, and commercial service sectors.

  - D.C. firms will be assured the right of establishment of a commericial presence, the right to sell across the border, and greater transparency in Canadian regulations.

  - Future licensing and certification requirements for D.C. residents providing professional services (such as accountants and engineers) will be based primarily on competence and ability--not citizenship.

- In 1986, the DISTRICT exported $2 million in books, periodicals, newspapers, magazines and pamphlets to Canada. The printing and publishing industry is the largest of the DISTRICT's manufacturing industries, employing over 13,000 people.

  - The FTA enhances export opportunities for D.C's publishers through phaseout of remaining duties on products of the printing industry by January 1, 1993.

  - The FTA also eliminates the "Print in Canada" requirement that has limited taxpayer income expense deductions to the purchase of advertising space in publications typeset or published in Canada.

STATE STATISTICAL PROFILE: DISTRICT OF COLUMBIA

Population (July 1, 1987)	622,000
Area	69 square miles 178 square kilometers
DISTRICT Personal Income ($ millions, 1986)	12,142

Nonagricultural Employees- Total and By Industry Groups (in 000s, October 1987)

Total:	648
Industry Groups:	
Construction	15
Manufacturing	16
Transportation and Public Utilities	25
Wholesale and Retail Trade	65
Finance, Insurance and Real Estate	36
Other Services	234
Government	257

Manufacturing Sector Employment- Total and Major Groups (1985)

Total:	18,400
Printing and Publishing	13,600
Administrative and Auxiliary	2,300
Machinery, Except Electrical	200
Fabricated Metal Products	200
Miscellaneous Manufacturing	200

Service Sector Employment- Total and Major Groups (1985)*

Total:	250,100
Business Services	41,900
Membership Organizations	38,100
Health Services	31,400
Educational Services	27,500
Legal Services	20,500

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in D.C.

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$1,095
Canada	174

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	198
Canada	27

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986): $ 43,303

Leading D.C. Exports to Canada:

Aircraft Complete with Engines	$35,649
Books and Pamphlets	1,410
Aircraft Engines, Engine Parts, and Other Aircraft Parts	733
Electronic Computers	675
Foods and Material for Foods	669
Newspapers, Magazines, and Periodicals	587
Electronic Tubes and Semiconductors	389
Rubber and Plastic Products	176
Various End Products, Inedible	176
Materials Handling Equipment	148

Imports from Canada ($ 000s, 1986): $ 30,578

Leading D.C. Imports from Canada:

Newsprint Paper	$13,153
Various Equipment and Tools	3,385
Various Machines and Equipment	1,352
Non-Metal Mineral Basic Products	1,283
Meat, Fresh, Chilled, or Frozen	1,124
Various Beverages	1,059
Telecommunications & Related Equipment	703
Electrical Lighting and Dist. Equip.	695
Special Industry Equipment	595
Various Measuring Containers (Lab, Medical and Opt. Equipment)	530

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

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BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT FOR HAWAII

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THE HAWAII-CANADA TRADING RELATIONSHIP

In 1986, Canada and HAWAII traded over $37 million worth of commodities.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for HAWAII arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, HAWAII consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. HAWAII manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- HAWAII exported $7.5 million worth of commodities to Canada in 1986.
    - Major exports included fresh fruits and berries; fresh vegetables; aircraft parts, watches, clocks, and jewelry; vegetable products; telecommunications equipment; fruit juices and concentrates; electronic computers.
- HAWAII imported $30 million worth of commodities from Canada in 1986.
    - Major imports included newsprint paper; barley; meat; shingles and shakes; fertilizers and fertilizer material; aircraft parts; office machines and equipment; prefabricated buildings; and metal fabricated products.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
    - On a national per capita basis, HAWAII'S 1.1 million residents would be expected to account for $113 million of this trade.
    - HAWAII service industry establishments recorded over $3.1 billion in revenues in 1982.
    - Major service industry employers include hotels and other lodging places, business services, health services, personal services, and social services.

- In 1986, 309,000 Canadian tourists spent $207 million in HAWAII.

- About one out of twenty-four HAWAIIANS working in the manufacturing sector hold export-related positions.
  - $300 million of HAWAII manufacturing shipments are related to exports (1983).
  - In the HAWAII manufacturing sector, about 1,000 positions are dependent on exports (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- HAWAII exported over $3.8 million in fruit and vegetable products to Canada in 1986.
  - Fresh produce growers in HAWAII's orchards and plantations will benefit from the FTA's phaseout of Canadian duties, as well as the eventual elimination of temporary tariffs on fresh fruits.
  - The Canadian and U.S. federal governments have agreed to "work together to improve access to each other's [agricultural] markets through the elimination or reduction of import barriers." This provision of the Agreement improves longer-term prospects for HAWAII.

- Two of the top three American export prospects to Canada in 1988, according to the U.S. Foreign Commercial Service, are among HAWAII'S leading export items. 1986 sales to Canada of these products--aircraft and components and electronic computers--were $561,000 and $268,000, respectively. Over 500 HAWAIIANS are employed in the manufacturing industries which produce many computer and aircraft products.
  - HAWAII's aircraft and aircraft components manufacturers are aided by the FTA's phaseout of the Canadian restriction against the importation of used aircraft.
  - The FTA eliminates the 3.9% Canadian duty on computer products on January 1, 1989, improving the price competitiveness of HAWAII'S electronic computer exports.

- With the expansion of government procurement opportunities through the FTA, HAWAII firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

- HAWAII's leading import from Canada is newsprint paper. In 1986, the state purchased over $8.6 million worth of this product. HAWAII also bought over $1.1. million worth of Canadian fertilizer and fertilizer products.
  - The Free Trade Agreement reaffirms the duty free status of newsprint paper in rolls and of fertilizer products. This assurance helps HAWAIIAN publishers and crop growers who depend on these commodities.
- Investment by Canadian companies in HAWAII is $99 million. Employment generated by Canadian investments is estimated to be over 500.
  - The FTA encourages additional HAWAII investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both HAWAII and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.
- HAWAII conducts over a millions of dollars worth of services trade with Canada each year. Over 161,000 HAWAIIANS work in the service, finance, insurance and real estate fields.
  - The FTA facilitates the entry of certain HAWAII business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.
  - The FTA enhances service trade opportunities for HAWAII businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.
  - The FTA covers dozens of services in the agriculture and forestry; mining; construction; distributive trade; insurance and real estate; and commercial service sectors.
  - HAWAII firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.
  - Future licensing and certification requirements for HAWAII residents providing professional services (such as accountants and engineers) will be based primarily on competence and ability--not citizenship.

- The FTA ensures that open markets for tourists and tourism service providers will continue for this important HAWAII industry. When the HAWAII tourism industry provides services to a Canadian tourist, that is an "invisible" export.

STATE STATISTICAL PROFILE: HAWAII

Population (July 1, 1987)	1,083,000
Area	6,471 square miles 16,759 square kilometers
State Personal Income ($ millions, 1986)	$15,814

Nonagricultural Employees- Total and By Industry Groups (in 000s, October 1987)

Total:	455
Industry Groups:	
Construction	21
Manufacturing	22
Transportation and Public Utilities	35
Wholesale and Retail Trade	121
Finance, Insurance and Real Estate	34
Other Services	127
Government	95

Manufacturing Sector Employment- Total and Major Groups (1985)

Total:	20,900
Food and Kindred Products	8,400
Apparel and Textile Products	3,500
Printing and Publishing	3,300
Stone, Clay, and Glass Prods	1,000
Miscellaneous Manufacturing	700

Service Sector Employment- Total and Major Groups (1985)*

Total:	142,500
Hotels and other Lodging	28,800
Health Services	21,400
Business Services	15,700
Real Estate	10,700
Banking	6,900

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in HAWAII

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$1,771
Canada	99

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	222
Canada	40

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986): $7,513

Leading HAWAII Exports to Canada:

Various Fresh Fruits and Berries	$2,470
Fresh Vegetables	493
Aircraft Engines, Engine Parts, and Other Aircraft Parts	532
Watches, Clocks, Jewelry, Silverware	407
Crude Vegetable Products	332
Telecom. and Related Equipment	290
Inedible End Products	278
Fruit Juices and Concentrates	276
Electronic Computers	268
Canned Fruits and Products	251

Imports from Canada ($ 000s, 1986): $29,666

Leading HAWAII Imports from Canada:

Newsprint Paper	$8,666
Barley	3,821
Meat, Fresh, Chilled or Frozen	3,583
Shingles and Shakes	1,328
Fertilizer and Fertilizer Material	1,125
Aircraft Engines, Engine Parts, and Other Aircraft Parts	1,261
Fishery Foods and Feeds	678
Office Machines and Equipment	538
Prefab. Buildings and Structures	512
Metal Fabricated Basic Products	512

Sources: Statistics Canada, U.S. Department of Commerce and U.S. of Labor.

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THE IDAHO-CANADA TRADING RELATIONSHIP

In 1986, Canada and IDAHO traded over $154 million worth of commodities. IDAHO exports over 14% more to Canada than it imports.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for IDAHO arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, IDAHO consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. IDAHO manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- IDAHO exported $82 million worth of commodities to Canada in 1986.
    - Major exports included phosphate rock, electronic computers, vegetables and vegetable products, inorganic and organic chemicals, kitchen utensils, cutlery and tableware, lumber, fish and marine animals, paper and paperboard, and plywood and wood building boards.
- IDAHO imported $72 million worth of commodities from Canada in 1986.
    - Major imports included softwood lumber; fertilizers and fertilizer material, organic and inorganic chemicals, newsprint paper, petroleum and coal products, general purpose industrial machinery, seeds for sowing, rubber and plastic products, trucks, truck tractors and chassis, and wood fabricated materials.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
    - On a national per capita basis, IDAHO's 2.5 million residents would be expected to account for $104 million of this trade.
    - IDAHO service industry establishments recorded over $1.4 billion in revenues in 1982.

  - Major service industry employers include health, educational, social, hotel and lodging place, personal, and business services.
  - In 1986, 130,000 Canadian tourists spent $8 million in IDAHO.

o Nearly one in eleven IDAHO manufacturing sector positions are dependent on sales to other countries.

  - Export-related manufacturers' shipments totalled $600 million in 1983.
  - IDAHO maintains 104,000 manufacturing positions which are export-related (1983).

IMPACT OF THE FREE TRADE AGREEMENT

o The number one American export prospect to Canada in 1988, according to the United States Foreign Commercial Services, is the category of computers and peripherals Computers are also among the leading IDAHO exports to Canada, with sales reaching $8.3 million in 1986. Nearly 5,000 IDAHOANS are employed in the machinery industry, which produces computer goods.

  - IDAHO's opportunities will expand in this fast-growing sector with the elimination of the 3.9% Canadian duty on computers on January 1, 1989. In addition, FTA provisions on enhanced telecommunications and computer services ensure further development of an open and competitive Canadian market, including access to and the use of the basic telecommunications network.

o In 1986, IDAHO exported $11.9 million in phosphate rock to Canada. Nearly 800 IDAHOANS are employed in the mining of nonmettalic minerals, including this product. In addition, IDAHO imported over $15 million worth of fertilizer products from Canada in 1986.

  - The Free Trade Agreement maintains the bilateral tariff-free status of phosphate fertilizer and other fertilizers. The 12.5% Canadian tariff on phosphates of metals will be reduced by 10% a year beginning on January 1, 1989. By 1998, these duties will be completely eliminated. These measures provide some security to those on IDAHO's 24,000 farms who use fertilizer to grow their crops, and enhance export opportunities for IDAHO exporters of phosphate rock.

- With the expansion of government procurement opportunities through the FTA, IDAHO firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

- IDAHO imported about $2.0 million in petroleum and coal products from Canada in 1986.

  - The Free Trade Agreement provides for free bilateral energy trade, ensuring IDAHO nondiscriminatory access to energy supplies. The FTA's energy provisions guarantee that Canada will not restrict exports, impose export taxes or establish export price requirements, subject to very limited national security and short supply exceptions.

- Investment by Canadian companies in IDAHO is $189 million. Employment generated by Canadian investments is estimated to be over 600.

  - The FTA encourages additional IDAHOinvestment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both IDAHO and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

- In 1986, IDAHO exported over $11.7 million in various fruits and vegetables, and fruit and vegetable products to Canada.

  IDAHO's fresh produce growers will benefit from the FTA's phaseout of Canadian duties, as well as the eventual elimination of temporary tariffs on fresh fruits.

  - The Canadian and U.S. federal governments have agreed to "work together to improve access to each other's [agricultural] markets through the elimination or reduction of import barriers." This provision of the Agreement improves longer-term prospects for IDAHO vegetable preparations and vegetable products.

- IDAHO conducts millions of dollars worth of services trade with Canada each year. Over 94,000 IDAHO workers are employed in the service, finance, insurance and real estate fields.

  - The FTA facilitates the entry of certain IDAHO business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.

  - The FTA enhances service trade opportunities for IDAHO businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

  - The FTA covers dozens of services in the agriculture and forestry, mining, construction, distributive trade, insurance and real estate, and commercial service sectors.

  - IDAHO firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.

  - Future licensing and certification requirements for IDAHO residents providing services (such as accountants and engineers) will be based primarily on competence and ability--not citizenship.

- The Free Trade Agreement assures retransmission rights for American broadcasters. Specifically, Canada's copyright law will provide each U.S. copyright holder with a right of equitable and non-discriminatory remuneration for any retransmission to the public of the copyrighter's programs (where the original transmission of the programs are carried in distant signals intended for free, over-the-air reception by the general public).

- The FTA specifically continues in force the 1986 U.S.-Canada Memorandum of Understanding on Softwood Lumber and allows measures necessary to enforce it. This agreement concerning Canadian provincial pricing practices for stumpage resolved a subsidy case against imports of Canadian softwood lumber.

STATE STATISTICAL PROFILE: IDAHO

Population (July 1, 1987)	998,000
Area	83,564 square miles 216,432 square kilometers

State Personal Income (in millions, 1986)

Total:	$11,250

Nonagricultural Employees- Total and By Industry Groups
(in 000s, October 1987)

Total:	349
Industry Groups:	
Mining	9
Construction	124
Manufacturing	57
Transportation and Public Utilities	20
Wholesale and Retail Trade	85
Finance, Insurance and Real Estate	25
Services	69
Government	75

Manufacturing Sector Employment- Total and Major Groups
(in 000s, 1985)

Total:	52
Food and Kindred Products	15
Lumber and Wood Products	12
Machinery, Except Electrical	5
Electric and Electronic Equip.	4
Printing and Publishing	4

Service Sector Employment- Total and Major Groups
(in 000s, 1985)*

Total:	75
Health Services	17
Business Services	11
Hotels and Other Lodging Places	5
Banking	5

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in IDAHO

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$351
Canada	189

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	109
Canada	20

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986):	$82,103

Leading IDAHO Exports to Canada:

Phosphate Rock	$11,873
Electronic Computers	8,301
Vegetables and Vegetable Preparations	6,635
Organic and Inorganic Chemicals	4,771
Crude Vegetable Products	3,534
Kitchen Utensils, Cutlery and Tableware	3,295
Lumber	3,245
Fish and Marine Animals	2,973
Paper and Paperboard	2,785
Plywood and Wood Building Boards	2,238

Imports from Canada ($ 000s, 1986):	$71,809

Leading IDAHO Imports from Canada:

Softwood Lumber	$16,421
Fertilizers and Fertilizer Material	15,019
Organic and Inorganic Chemicals	7,356
Newsprint Paper	3,910
Petroleum and Coal Products	1,993
Various General Purpose Industrial Machinery	1,959
Seeds for Sowing	1,652
Rubber and Plastic Products	1,554
Trucks, Truck Tractors and Chassis	1,012
Wood Fabricated Materials	1,008

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

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THE ILLINOIS-CANADA TRADING RELATIONSHIP

In 1986, Canada and ILLINOIS traded over $6.0 billion worth of commodities. If Illinois were an independent country, it would rank as Canada's third largest trading partner (after the United States and Japan). Among U.S. states, ILLINOIS is fourth in total merchandise trade with Canada.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for ILLINOIS arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, ILLINOIS consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. ILLINOIS manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- ILLINOIS exported $2.9 billion worth of commodities to Canada in 1986.
  - Major exports included motor vehicle engines and parts and other motor vehicle parts; front end loaders; combine reaper-threshers; tractor engines and parts; newspapers, magazines and periodicals; miscellaneous telecommunications equipment and related parts; railway and street railway rolling stock; and various chemical products.
- ILLINOIS imported $3.1 billion worth of commodities from Canada in 1986.
  - Major imports included crude petroleum; trucks, truck tractors and chassis; newsprint paper; motor vehicle engines and parts; organic and other inorganic chemicals; softwood lumber; aluminum and alloys; miscellaneous paper for printing; petroleum and coal products; and fertilizer materials.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
  - On a national per capita basis, ILLINOIS' 11.6 million residents would be expected to account for $1.2 billion of this trade. As a major trading neighbor of Canada, the figure is probably far higher.

  - ILLINOIS service industry establishments recorded over $25 billion in revenues in 1982.
  - Major service industry employers include health, educational, social, hotel and lodging place, personal, and business services.
  - In 1986, 229,000 Canadian tourists spent $34 million in ILLINOIS.

- Nearly one out of nine Illinois workers in the manufacturing sector hold export-related jobs.
  - $11.8 billion of Illinois manufacturing shipments are related to exports (1983).
  - In the Illinois manufacturing sector, 110,000 positions are dependent on exports.

IMPACT OF THE FREE TRADE AGREEMENT

- The two leading American export prospects to Canada in 1988, according to the U.S. Foreign Commercial Service in that country, are among ILLINOIS' top export items. 1986 sales to Canada of these products--various motor vehicle components and electronic computers--were $403 million and $69 million, respectively. Over 147,000 ILLINOIS workers are employed in the machinery industry, which produces many computer goods. Another 45,000 are employed in the manufacture of transportation equipment.
  - The ILLINOIS' auto sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto PAct privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.
  - After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.

  - The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.
  - The Canadian 3.9% duty on computers will end on January 1, 1989, increasing the price competitiveness of ILLINOIS' electronic computer exports.

- With the expansion of government procurement opportunities through the FTA, ILLINOIS firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

- ILLINOIS imported over $856 million in crude petroleum, coal and other bituminous substances in 1986. This represents approximately 4% of the state's energy expenditures.

  - The Free Trade Agreement provides for free bilateral energy trade, ensuring ILLINOIS nondiscriminatory access to energy supplies. The FTA's energy provisions guarantee that Canada will not restrict exports, impose export taxes or establish export price requirements, subject to very limited national security and short supply exceptions.

- Investment by Canadian companies in ILLINOIS is $1.6 billion. Employment generated by Canadian investments is estimated to be over 23,000.

  - The FTA encourages additional ILLINOIS investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both ILLINOIS and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

- ILLINOIS conducts over a billion dollars worth of services trade with Canada each year. The service, finance, insurance and real estate fields provide over 1.5 million jobs for ILLINOIS citizens.

- The FTA facilitates the entry of certain ILLINOIS business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.
    - The FTA enhances service trade opportunities for ILLINOIS businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.
    - The FTA covers dozens of services in the agriculture and forestry; mining; construction; distributive trade; insurance and real estate; and commercial service sectors.
    - ILLINOIS firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.
    - Future licensing and certification requirements for ILLINOIS residents providing professional services such as accountants and engineers will be based primarily on competence and ability--not citizenship.

o In 1986, ILLINOIS exported to Canada nearly $58 million in miscellaneous chemical products, close to $74 million in various telecommunications and related equipment, and over $81 million in newspapers, magazines and periodicals. These commodities are among the top export prospects to Canada in 1988. Over 49,000 ILLINOIS workers are employed in the industry which manufactures chemicals; over 106,000 in the printing and publishing industry; and over 155,000 in the electric and electronic equipment and the instruments and related products industries.

- ILLINOIS' opportunities will expand in these fast-growing sectors with the gradual elimination of duties on all of these products. In addition, FTA provisions on enhanced telecommunications and computer services ensure further development of an open and competitive Canadian market, including access to and the use of the basic telecommunications network.
- ILLINOIS publishers and printers can profit from the elimination of the "Print in Canada" requirement

which has limited taxpayer expense deductions for the costs of newspaper or periodical advertising space to advertisements purchased in publications printed or typeset in Canada.

- The Free Trade Agreement assures retransmission rights for American broadcasters. Specifically, Canada's copyright law will provide each U.S. copyright holder with a right of equitable and non-discriminatory remuneration for any retransmission to the public of the copyrighter's programs where the original transmission of the programs are carried in distant signals intended for free, over-the-air reception by the general public.

- In 1986, ILLINOIS imported over $57 million worth of fertilizer and fertilizer material.

  - The FTA ensures that these products will continue to enter the United States duty free in the years ahead. This will provide some security to those working on ILLINOIS' 87,000 farms, many of which depend on fertilizer to grow agricultural commodities.

STATE STATISTICAL PROFILE: ILLINOIS

Population (July 1, 1987)	11,582,000
Area	56,345 square miles 145,934 square kilometers
Gross State Product ($ millions, 1986)	$222,014

Nonagricultural Employees- Total and By Industry Groups
(in 000s, October 1987)

Total:	4,927
Industry Groups:	
Mining	25
Construction	196
Manufacturing	934
Transportation and Public Utilities	288
Wholesale and Retail Trade	1,245
Finance, Insurance and Real Estate	355
Other Services	1,160
Government	726

Manufacturing Sector Employment- Total and Major Groups
(in 000s, 1985)

Total:	1,043
Machinery, Except Electrical	147
Electric and Electronic Equip.	124
Fabricated Metal Products	113
Printing and Publishing	107
Administrative and Auxiliary	99

Service Sector Employment- Total and Major Groups
(in 000s, 1985)*

Total:	1,424
Health Services	331
Business Services	234
Insurance Carriers	90
Banking	90
Membership Organizations	87

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in ILLINOIS

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$9,119
Canada	1,623

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	1,063
Canada	113

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986): $2,945,929**

Leading ILLINOIS Exports to Canada:

Motor Vehicle Engines and Parts and Other Motor Vehicle Parts	$402,832
Front End Loaders	104,895
Combine Reaper-Threshers	92,878
Tractor Engines and Parts	89,451
Newspapers, Magazines and Periodicals	81,357
Misc. Telecommunications Equipment and Related Equip.	73,535
Electronic Computers	69,236
Railway and Street Railway Rolling Stock	61,146
Chemical Products	57,851
Special Industry Machinery	46,747

Imports from Canada ($ 000s, 1986): $3,083,136

Leading ILLINOIS Imports from Canada:

Crude Petroleum	$796,065
Trucks, Truck Tractors and Chassis	308,686
Newsprint Paper	267,776
Motor Vehicle Engines and Parts and Other Motor Vehicle Parts	184,960
Organic and Inorganic Chemicals	139,995
Softwood Lumber	116,684
Aluminum and Alloys	87,308
Paper for Printing	62,754
Petroleum and Coal Products	60,587
Fertilizers and Fertilizer Materials	57,234

** It is likely that exports from the State of ILLINOIS to Canada are underestimated. Approximately one out of every seven dollars worth of U.S. exports to Canada cannot be assigned to a state. Most of these exports are automotive products, which are among ILLINOIS' leading exports to Canada.

Sources: Statistics Canada, U.S. Department of Commerce, U.S. Department of Labor, and Illinois Department of Commerce and Community Affairs.

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT FOR INDIANA

Prepared by

The Office of Canada
International Trade Administration
U.S. Department of Commerce (Room 3033)
Washington, D.C. 20230
(202) 377-3101

March 7, 1988

The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE INDIANA-CANADA TRADING RELATIONSHIP

In 1986, Canada and INDIANA traded over $3.2 billion worth of commodities. While the United States as a whole traditionally maintains a goods trade deficit with Canada, INDIANA exports over twice as much to Canada as it imports from that country.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for INDIANA arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, INDIANA consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. INDIANA manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- INDIANA exported $2.2 billion worth of commodities to Canada in 1986.
    - Major exports included motor vehicle engines, engine parts and other motor vehicle parts; auxiliary electrical equipment for engines; televisions, radio sets and phonographs; aircraft engines, engine parts and other aircraft parts; miscellaneous equipment and tools; rubber and plastic products; electrical lighting fixtures and portable lamps; telecommunications and related equipment; and metal fabricated basic products.
- INDIANA imported $983 million worth of commodities from Canada in 1986.
    - Major imports included motor vehicle engines, engine parts and other motor vehicle parts; crude petroleum; aluminum (including alloys); newsprint paper; softwood lumber; petroleum and coal products; zinc, (including alloys); iron ores and concentrates; metal fabricated base products; and copper and alloys.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
    - On a national per capita basis, INDIANA's 5.5 million residents would be expected to account for $577 million of this trade.

  - INDIANA service industry establishments recorded over $7.2 billion in revenues in 1982.
  - Major service industry employers include health, educational, social, hotel and lodging place, personal, and business services.
  - In 1986, 93,500 Canadian tourists spent $8 million in INDIANA.

o INDIANA relies more heavily upon foreign markets for its manufacturing products than the United States as a whole. Of INDIANA's 615,000 manufacturing jobs, 11.3 percent are export related. This compares to a national average of 11.0 percent.

  - Export-related manufacturers' shipments totalled $8.3 billion in 1983.
  - INDIANA maintains 66,000 manufacturing positions which are export-related (1983).

IMPACT OF THE FREE TRADE AGREEMENT

o Two of the top three American export prospects to Canada in 1988, according to the U.S. Foreign Commercial Service in that country, are among INDIANA's leading export items. 1986 sales to Canada of these products--various motor vehicle and aircraft components--totalled over $1.2 billion last year. The INDIANA transportation equipment manufacturing industry employs over 76,000, making it the second largest employer in the state's manufacturing sector.

  - INDIANA's aircraft and automobile engine and parts producers stand to gain from the staged elimination of the Canadian restriction on the importation of used American aircraft and used American motor vehicles.
  - INDIANA's auto sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.
  - After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way

to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.

- The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

o With the expansion of government procurement opportunities through the FTA, INDIANA firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

o INDIANA imported over $155 million worth of crude petroleum and coal and petroleum products from Canada in 1986.

  - The Free Trade Agreement provides for free bilateral energy trade, ensuring INDIANA nondiscriminatory access to Canadian-based energy supplies. The FTA's energy provisions guarantee that Canada will not restrict exports, impose export taxes or establish export price requirements, subject to very limited national security and short supply exceptions.

o Investment by Canadian companies in INDIANA is $370 million. Employment generated by Canadian investments is estimated to be over 12,000.

  - The FTA encourages additional INDIANA investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both INDIANA and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

o INDIANA conducts about half a billion dollars worth of services trade with Canada each year. Over 570,000 INDIANA workers are employed in the service, finance, insurance and real estate fields.

  - The FTA facilitates the entry of certain INDIANA business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.

- The FTA enhances service trade opportunities for INDIANA businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

- The FTA covers dozens of services in the agriculture and forestry, mining, construction, distributive trade, insurance and real estate, and commercial service sectors.

- INDIANA firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.

- Future licensing and certification requirements for INDIANA residents providing professional services such as accountants and engineers will be based primarily on competence and ability--not citizenship.

o INDIANA exported over $44 million worth of rubber and plastic products to Canada in 1986. Plastics and resins are rated among the top 10 American export prospects to Canada during 1988. The rubber and plastics manufacturing industry in INDIANA supports over 37,000 jobs.

  - The Free Trade Agreement enhances the opportunities of INDIANA firms which manufacture these products. Through the staged elimination of tariffs, these goods will become more competitive in the fast-growing Canadian markets. Duties on primary plastics will be eliminated by January 1, 1993. Canadian tariffs on other rubber and plastics products will be reduced to zero by January 1, 1998.

STATE STATISTICAL PROFILE: INDIANA

Population (July 1, 1987)	5,531,000
Area	36,185 square miles 93,720 square kilometers

Gross State Product ($ millions, 1986)

Total:	$83,374
Private:	73,779
Government:	8,930
Farm:	665

Nonagricultural Employees- Total and By Industry Groups
(in 000s, October 1987)

Total:	2,359
Industry Groups:	
Mining	9
Construction	124
Manufacturing	615
Transportation and Public Utilities	119
Wholesale and Retail Trade	559
Finance, Insurance and Real Estate	115
Other Services	455
Government	363

Manufacturing Sector Employment- Total and Major Groups
(in 000s, 1985)

Total:	606
Electric and Electronic Equip.	81
Transportation Equipment	77
Primary Metal Industries	76
Machinery, Except Electrical	65
Fabricated Metal Products	56

Service Sector Employment- Total and Major Groups
(in 000s, 1985)*

Total:	504
Health Services	142
Business Services	58
Membership Organizations	39
Banking	30
Insurance Carriers	29

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in INDIANA

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$2,738
Canada	370

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	340
Canada	51

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986): $2,172,053**

Leading INDIANA Exports to Canada:

Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	$1,191,070
Auxiliary Electrical Equipment for Engines	103,478
Television, Radio Sets and Phonographs	89,420
Aircraft Engines, Engine Parts and Other Aircraft Parts	59,766
Miscellaneous Equipment and Tools	53,220
Rubber and Plastic Products	44,662
Electrical Lighting Fixtures and Portable Lamps	35,532
Telecommunications and Related Equip.	33,710
Other End Products, Inedible	22,821
Other Metallic Fabricated Basic Products	20,918

Imports from Canada ($ 000s, 1986): $983,721

Leading INDIANA Imports from Canada:

Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	$120,365
Crude Petroleum	119,483
Aluminum, (Including Alloys)	92,742
Newsprint Paper	78,821
Softwood Lumber	70,180
Petroleum and Coal Products	35,781
Zinc, Including Alloys	35,424
Iron Ores and Concentrates	24,459
Metal Fabricated Base Products	20,908
Copper and Alloys	20,840

** It is likely that exports from the State of INDIANA to Canada are underestimated. Approximately one out of every seven dollars worth of U.S. exports to Canada cannot be assigned to a state. Most of these exports are automotive products, which are among INDIANA's leading exports to Canada.

Sources: Statistics Canada, U.S. Department of Commerce, U.S. Department of Labor and INDIANA University.

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT
FOR IOWA

Prepared by

The Office of Canada
International Trade Administration
U.S. Department of Commerce (Room 3033)
Washington, D.C. 20230
(202) 377-3101

March 7, 1988

The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE IOWA-CANADA TRADING RELATIONSHIP

In 1986, Canada and IOWA traded over $756 million worth of commodities.

Trade liberalizing accords, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increase their sales to each other. The opportunities for IOWA arise through the United States-Canada Free Trade Agreement's phaseout of Canada's tariffs, on average the highest in the industrialized world, the elimination of various non-tariff barriers, and generally improved access to the Canadian market.

Through the FTA, IOWA consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. The state's manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- IOWA exported $483 million worth of commodities to Canada in 1986.
  - Major exports included new wheel tractors; motor vehicle engines and parts; miscellaneous equipment and tools; excavating machinery; telecommunications and related equipment; wood fabricated materials; aluminum, including alloys; front end loaders; chemical products; and soil preparation, seeding and fertilizer equipment.
- IOWA imported $274 million worth of commodities from Canada in 1986.
  - Major imports included newsprint paper; natural gas; fertilizers and fertilizer material; live animals; transportation equipment; softwood lumber; telecommunications and related equipment; motor vehicle engines and parts; organic and inorganic chemicals; and agricultural machinery and equipment.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
  - On a national per capita basis, IOWA's 2.8 million residents would be expected to account for $292 million of this trade.

  - IOWA service industry establishments recorded over $4.1 billion in revenues in 1982.
  - Major service industry employers include health, educational, insurance, educational, and business services.
  - In 1986, 42,200 Canadian tourists spent $3 million in IOWA.
- Of IOWA's 216,600 manufacturing jobs, about 9.8 percent are export related.
  - Export-related manufacturers' shipments totalled $2.9 billion in 1983.
  - IOWA maintains 20,000 manufacturing positions which are export-related (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- Two of the leading American export prospects to Canada in 1988, according to the U.S. Foreign Commercial Service in that country, are among IOWA's top ten export items. Sales to Canada of these two products--excavating machinery and telecommunications and related equipment--totaled over $35 million in 1986. Over 63,000 IOWANS are employed in the machinery and electrical machinery manufacturing industry.
  - The Free Trade Agreement will allow IOWA to increase its exports of these products by phasing out tariffs and non-tariff barriers that now restrict the entry of such goods into Canada.
  - The FTA will enhance export opportunities for manufacturers of telecommunications equipment through the staged reduction of relevant tariffs--some as high as 17.5%--by January 1, 1998. Many of these products will enter Canada without a duty within five years of the Agreement's implementation.
- With the expansion of government procurement opportunities through the FTA, IOWA firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.
- IOWA imported over $29 million worth of natural gas from Canada in 1986.
  - The Free Trade Agreement provides for free bilateral energy trade, ensuring IOWA nondiscriminatory access

to energy supplies. The FTA's energy provisions guarantee that Canada will not restrict exports, impose export taxes or establish export price requirements, subject to very limited national security and short supply exceptions.

- IOWA imported more than $26 million in fertilizer and fertilizer materials, and over $16 million in live animals from Canada in 1986.
  - The Canadian and U.S. federal governments agree to "work together to improve access to each other's [agricultural] markets through the elimination or reduction of import barriers." This accord improves longer term prospects for IOWA farmers who are dependent upon Canadian fertilizer to grow their crops.
- Investment by Canadian companies in IOWA is $432 million. Employment generated by Canadian investments is estimated to be over 7,000.
  - The FTA encourages additional IOWA investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both IOWA and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.
- IOWA conducts about 300 million dollars worth of services trade with Canada each year. Over 300,000 INDIANA workers are in the service, finance, insurance and real estate fields.
  - The FTA facilitates the entry of certain IOWA business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.
  - The FTA enhances service trade opportunities for IOWA businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.
  - The FTA covers a wide range of service sectors, including insurance services, real estate services, management services, business services, hotel management, and tourism services.

- IOWA firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.

- Future licensing and certification requirements for IOWA residents providing professional services such as accountants and engineers) will be based primarily on competence and ability--not citizenship.

STATE STATISTICAL PROFILE: IOWA

Population (July 1, 1987)	2,834,000
Area	56,275 square miles 145,753 square kilometers

Personal State Income ($ millions, 1986)

Total:	$38,053

Nonagricultural Employees- Total and By Industry Groups (in 000s, October 1987)

Total:	1,129
Industry Groups:	
Mining	2
Construction	44
Manufacturing	217
Transportation and Public Utilities	54
Wholesale and Retail Trade	282
Finance, Insurance and Real Estate	65
Services	248
Government	218

Manufacturing Sector Employment- Total and Major Groups (in 000s, 1985)

Total:	201
Machinery, Except Electrical	42
Food and Kindred Products	38
Electric and Electronic Equip.	21
Printing and Publishing	19
Fabricated Metal Products	16

Service Sector Employment- Total and Major Groups (in 000s, 1985)*

Total:	284
Health Services	79
Business Services	27
Insurance Carriers	24
Educational Services	21
Banking	19

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in IOWA

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$1,401
Canada	432

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	239
Canada	40

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986): $482,665**

Leading IOWA Exports to Canada:

New Wheel Tractors	$53,243
Motor Vehicle Engines and Parts	42,449
Miscellaneous Equipment and Tools	40,591
Excavating Machinery	21,700
Telecommunications and Related Equip.	14,260
Wood Fabricated Materials	13,954
Aluminum, Including Alloys	13,283
Front End Loaders	12,289
Chemical Products	11,846
Soil Preparing, Seeding and Fertilizing Machinery	10,853

Imports from Canada ($ 000s, 1986): $273,759

Leading IOWA Imports from Canada:

Newsprint Paper	47,703
Natural Gas	29,286
Fertilizers and Fertilizer Materials	26,871
Live Animals	16,988
Transportation Equipment	10,067
Softwood Lumber	9,697
Telecommunications and Related Equip.	9,615
Motor Vehicle Engines and Related Parts	9,526
Organic and Inorganic Chemicals	8,388
Agricultural Machinery and Equip.	6,943

** It is likely that exports from the State of IOWA to Canada are underestimated. Approximately one out of every seven dollars worth of U.S. exports to Canada cannot be assigned to a state. Most of these exports are automotive products, which are among IOWA's leading exports to Canada.

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
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BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT
FOR KANSAS

Prepared by

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International Trade Administration
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Washington, D.C. 20230
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March 7, 1988

The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE KANSAS-CANADA TRADING RELATIONSHIP

In 1986, Canada and KANSAS traded over $632 million worth of commodities.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for KANSAS arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, KANSAS consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. KANSAS manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- o KANSAS exported $267 million worth of commodities to Canada in 1986.
    - Major exports included fresh, chilled or frozen meat; aircraft and aircraft components; coal; transportation equipment; haying and harvesting machinery; coated or impregnated fabrics; motor vehicle engines, engine parts and other motor vehicle parts; fodder and feed; and agricultural machinery and equipment.
- o KANSAS imported $364 million worth of commodities from Canada in 1986.
    - Major imports included motor vehicle components; aircraft engines and parts; softwood lumber; newsprint paper; equipment and tools; wood pulp and similar pulp; metalworking machinery; transportation equipment; petroleum and coal products; and rubber and plastic products.
- o In 1986, United States-Canada trade in services exceeded $25.4 billion.
    - KANSAS service industry establishments recorded over $3.6 billion in revenues in 1982.
    - Major service industry employers include health, educational, social, hotel and lodging place, personal, and business services.
    - In 1986, 27,700 Canadian tourists spent $2 million in KANSAS.

- Approximately one out of eleven KANSAS manufacturing positions are dependent on exports to other countries.
  - Export-related manufacturers' shipments totalled $2.1 billion in 1983.
  - KANSAS maintains 15,000 manufacturing positions which are export-related (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- One of KANSAS' leading exports to Canada is meat (fresh, chilled or frozen). In 1986, the state exported nearly $22 million worth of this commodity.
  - KANSAS cattle ranchers and processors will be helped by the Free Trade Agreement's elimination of Canada's meat import laws. In addition, longer-range export prospects are enhanced by the FTA provision calling for U.S. and Canadian government cooperation in harmonizing technical regulations affecting agricultural food and beverage products.
- According to the United States Foreign Commercial Service, one of the top American export prospects to Canada in 1988 is aircraft and aircraft parts. In 1986, KANSAS sold $33.5 million worth of these products to Canada. Over 37,000 KANSAS workers are employed in the manufacture of transportation equipment, making this the largest of the state's manufacturing industries.
  - The Free Trade Agreement assists the KANSAS aircraft components industry through the staged elimination of the Canadian restriction on the importation of used aircraft from the United States.
- With the expansion of government procurement opportunities through the FTA, KANSAS firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.
- KANSAS exported over $8.4 million in motor vehicle engines, engine parts, and other motor vehicle parts to Canada in 1986. As mentioned above, over 37,000 KANSAS workers are employed in the industry that produces transportation equipment.
  - The KANSAS auto sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.

- After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers links to the production or exportation of Canadian automotive products.

- The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. This elimination of the Canadian duty remission and drawback programs coupled with the new FTA rule of origin and the phaseout of tariffs will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

o KANSAS exported over $19.8 million coal from Canada in 1986, and imported over $5.5 million of petroleum and coal products.

- The Free Trade Agreement provides for free bilateral energy trade, ensuring KANSAS nondiscriminatory access to energy supplies and a secure market for its exports of coal. The FTA's energy provisions guarantee that neither the United States nor Canada will restrict exports, impose export taxes or establish export price requirements, subject to very limited national security and short supply exceptions.

o Investment by Canadian companies in KANSAS is $200 million. Employment generated by Canadian investments is estimated to be over 2,600.

- The FTA encourages additional KANSAS investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both KANSAS and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

o KANSAS conducts millions of dollars worth of services trade with Canada each year. Over 257,000 KANSAS workers are in the service, finance, insurance and real estate fields.

- The FTA facilitates the entry of certain KANSAS business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.

- The FTA enhances service trade opportunities for KANSAS businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

- The FTA covers dozens of services in the agriculture and forestry, mining, construction, distributive trade, insurance and real estate, and commercial service sectors.

- KANSAS firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.

- Future licensing and certification requirements for KANSAS residents providing services (such as accountants and engineers) will be based primarily on competence and ability--not citizenship.

STATE STATISTICAL PROFILE: KANSAS

Population (July 1, 1987)	2,476,000
Area	82,277 square miles 213,098 square kilometers

Gross State Product ($ millions, 1986)

Total:	$39,936

Nonagricultural Employees- Total and By Industry Groups (in 000s, October 1987)

Total:	1,012
Industry Groups:	
Mining	13
Construction	45
Manufacturing	180
Transportation and Public Utilities	64
Wholesale and Retail Trade	254
Finance, Insurance and Real Estate	55
Other Services	202
Government	201

Manufacturing Sector Employment- Total and Major Groups (in 000s, 1985)

Total:	180*
Transportation Equipment	48
Food and Kindred Products	25
Machinery, Except Electrical	23
Printing and Publishing	18
Electric and Electronic Equip.	10

Service Sector Employment- Total and Major Groups (in 000s, 1983)**

Total:	257*
Health Services	69
Business Services	21
Banking	16
Membership Organizations	14
Insurance Carriers	12

* Figure is for October 1987

**Includes Finance, Insurance and Real Estate Industries

Foreign Investment in KANSAS

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$1,199
Canada	200

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	285
Canada	70

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986): $268,704

Leading KANSAS Exports to Canada:

Meat, Fresh, Chilled or Frozen	$21,829
Aircraft Engines, Engine Parts, and Other Aircraft Parts	21,054
Coal	19,804
Transportation Equipment	13,413
Aircraft, Complete with Engines	12,484
Other Haying and Harvesting Machinery	10,634
Coated or Impregnated Fabrics	8,540
Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	8,439
Fodder and Feed	7,772
Agricultural Machinery and Equip.	7,300

Imports from Canada ($ 000s, 1986): $363,652

Leading KANSAS Imports from Canada:

Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	$139,297
Aircraft Engines and Parts	85,949
Softwood Lumber	15,106
Newsprint Paper	11,495
Equipment and Tools	11,284
Wood Pulp and Similar Pulp	9,309
Metalworking Machinery	7,105
Transportation Equip.	6,418
Petroleum and Coal Products	5,553
Rubber and Plastic Products	5,240

Sources: Statistics Canada, U.S. Department of Commerce, U.S. Department of Labor, Kansas State University.

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT
FOR KENTUCKY

Prepared by

The Office of Canada
International Trade Administration
U.S. Department of Commerce (Room 3033)
Washington, D.C. 20230
(202) 377-3101

March 7, 1988

The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE KENTUCKY-CANADA TRADING RELATIONSHIP

In 1986, Canada and KENTUCKY traded over $1.1 billion worth of commodities.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for KENTUCKY arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, KENTUCKY consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. KENTUCKY manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- KENTUCKY exported $396.0 million worth of commodities to Canada in 1986.
  - Major exports included the following: motor vehicle engines and parts; rubber and plastic products; aluminum, including alloys; equipment and tools; electronic computers; newspapers, magazines and periodicals; other chemical products; other electrical lighting and distribution equipment; aircraft engines, engine parts and other aircraft parts; and organic and inorganic chemicals.
- KENTUCKY imported $773.2 million worth of commodities from Canada in 1986.
  - Major imports included the following: organic and inorganic chemicals; motor vehicle engines, engine parts and other motor vehicle parts; aluminum, including alloys; newsprint paper; lumber, softwood; petroleum and coal products; nickel and alloys; whisky; zinc, including alloys; and other paper for printing.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
  - KENTUCKY service industry establishments recorded over $4.2 billion in revenues in 1982.
  - Major service industry employers include health, business, membership organizations, social, and personal services.

  - In 1986, 226,200 Canadian tourists spent $10 million in KENTUCKY.

- More than one out of twelve KENTUCKY workers employed in the manufacturing sector hold export-related positions.

  - $3.1 billion of KENTUCKY's manufacturing shipments are related to exports (1983).

  - In the KENTUCKY manufacturing sector, 22,000 positions depend on exports to other countries (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- The three leading American export prospects to Canada in 1988, according to the U.S. Foreign Commercial Service in that country, are among KENTUCKY's top export items. 1986 sales to Canada of these products--various motor vehicle components; aircraft engines, engine parts and other aircraft parts; and electronic computers--were $71.6 million, $10.6 million, $12.5 million, respectively. About 34,000 KENTUCKY workers are employed in the machinery industry, which produces many computer goods. Another 15,000 work in the manufacture of transportation equipment. The machinery industry is KENTUCKY's major manufacturing industry employer.

  - The Free Trade Agreement helps aircraft and motor vehicle component makers by phasing out the duty on replacement auto parts by 1993, and by eliminating the Canadian restriction on the importation of used American cars and aircraft.

  - KENTUCKY's auto sector also will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.

  - After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.

  - The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

  - Through the Free Trade Agreement, the 3.9% Canadian duty on computers will end on January 1, 1989. Duties on various electronic devices will be completely phased out by 1998. The FTA provisions on enhanced telecommunications and computer services ensure further development of an open and competitive Canadian market, including access to and the use of the basic telecommunications network. These changes will make KENTUCKY's exporters of high-tech products more competitive in the Canadian market.

o With the expansion of government procurement opportunities through the FTA, KENTUCKY firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

o KENTUCKY exported over $32 million in rubber and plastics products and nearly $21 million worth of chemicals and chemical products to Canada in 1986. According to the U.S. Foreign Commercial Service, plastics and industrial chemicals are among the leading U.S. export prospects to Canada during 1988. Over 22,000 KENTUCKY workers are employed in the manufacture of chemical, rubber, and plastics goods.

  - The Free Trade Agreement enhances the export opportunities for KENTUCKY manufacturers of chemical, rubber and plastics products through the phaseout of Canadian duties. Many of these KENTUCKY products will become more price competitive in the fast-growing Canadian markets as tariffs decline each year through 1998. Tariffs on certain chemicals and chemical products will be phased out by January 1, 1993.

o Investment by Canadian companies in KENTUCKY is $813 million. Employment generated by Canadian investments is estimated to be over 8,900.

- The FTA encourages additional KENTUCKY investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both KENYUCKY and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

o KENTUCKY conducts million of dollars worth of services trade with Canada each year. Over 337,000 KENTUCKY workers are employed in the service, finance, insurance and real estate fields.

- The FTA facilitates the entry of certain KENTUCKY business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.

- The FTA enhances service trade opportunities for KENTUCKY businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

- The FTA covers dozens of services in the agriculture and forestry, mining, construction, distributive trade, insurance and real estate, and commercial service sectors.

- KENTUCKY firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.

- Future licensing and certification requirements for KENTUCKY residents providing professional services such as accountants and engineers will be based primarily on competence and ability--not citizenship.

o In 1986, KENTUCKY imported nearly $48 million worth of newsprint paper from Canada.

- The FTA ensures that Canadian newsprint paper in rolls continues to enter the United States duty free in the years ahead. This will provide additional security to those working on KENTUCKY's newspapers, including the state's 25 dailies.

o The FTA specifically continues in force the 1986 U.S.-Canada Memorandum of Understanding on Softwood Lumber and allows measures necessary to enforce it. This agreement concerning Canadian provincial pricing practices for stumpage resolved a subsidy case against imports of Canadian softwood lumber.

STATE STATISTICAL PROFILE: KENTUCKY

Population (July 1, 1987)	3,727,000
Area	40,410 square miles 104,660 square kilometers
State Personal Income ($ millions, 1986)	$41,902

Nonagricultural Employees- Total and By Industry Groups (in 000s, October 1987)

Total:	1,323
Industry Groups:	
Mining	39
Construction	66
Manufacturing	260
Transportation and Public Utilities	71
Wholesale and Retail Trade	306
Finance, Insurance and Real Estate	62
Other Services	275
Government	243

Manufacturing Sector Employment- Total and Major Groups (1985)

Total:	254,000
Machinery, Except Electrical	33,900
Electric & Electronic Equip.	25,100
Apparel & Textile Products	25,000
Fabricated Metal Products	19,500
Printing and Publishing	17,300

Service Sector Employment- Total and Major Groups (1985)*

Total:	280,400
Health Services	82,900
Business Services	31,100
Banking	20,800
Membership Organizations	18,900
Social Services	16,400

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in KENTUCKY

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):	
All countries	$3,880
Canada	813
Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)	
All countries	318
Canada	49

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986): $395,953**

Leading KENTUCKY Exports to Canada:

Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	$71,605
Rubber & Plastic Products	32,463
Aluminum, Including Alloys	15,752
Various Equipment and Tools	14,211
Electronic Computers	12,486
Newspapers, Magazines, & Period.	12,175
Misc. Chemical Products	11,976
Various Electrical Lighting and Distrib. Equipment	11,827
Aircraft Engines, Engine Parts, and Other Aircraft Parts	10,605
Chemicals (Organic and Inorganic)	8,951

Imports from Canada ($ 000s, 1986): $773,171

Leading KENTUCKY Imports from Canada:

Chemicals (Organic and Inorganic)	$268,728
Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	153,637
Aluminum, Including Alloys	49,640
Newsprint Paper	47,881
Lumber, Softwood	33,097
Petroleum and Coal Products	26,075
Nickel and Alloys	23,205
Whiskey	20,294
Zinc, Including Alloys	12,417
Other Paper for Printing	8,586

** It is likely that exports from the State of KENTUCKY to Canada are underestimated. Approximately one out of every seven dollars worth of U.S. exports to Canada cannot be assigned to a state. Most of these exports are automotive products, which are among KENTUCKY's leading exports to Canada.

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

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BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT FOR LOUISIANA

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THE LOUISIANA-CANADA TRADING RELATIONSHIP

In 1986, Canada and LOUISIANA traded over $453.8 million worth of commodities. Although the United States tends to run a goods trade deficit with Canada, LOUISIANA exports over 43% more to that country than it imports from it.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for LOUISIANA workers arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, LOUISIANA consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. LOUISIANA manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- LOUISIANA exported $267.5 million worth of commodities to Canada in 1986.
  - Major exports included the following: chemicals (organic and inorganic); rubber and plastic products; fuel oil; various non-metallic mineral basic products; other chemical products; coke of petroleum and coal; fish and marine animals; fertilizers and fertilizer materials; valves; and general purpose engines and turbines.
- LOUISIANA imported $186.3 million worth of commodities from Canada in 1986.
  - Major imports included the following: motor vehicle parts; general purpose engines and turbines; plastics basic shapes and forms; softwood lumber; materials handling machinery and equipment; paper for printing; other non-metallic mineral basic products; newsprint paper; and crude petroleum.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
  - LOUISIANA service industry establishments recorded over $8.2 billion in revenues in 1982.
  - Major service industry employers include health, business, membership organizations, hotels and lodging places, and educational services.

- In 1986, 47,900 Canadian tourists spent $15 million in LOUISIANA.

o One out of every ten LOUISIANA manufacturing positions depends on exports to other countries.

  - $6.8 billion in LOUISIANA manufacturing shipments are related to exports (1983).

  - In the LOUISIANA manufacturing sector, 19,000 positions are related on exports (1983).

IMPACT OF THE FREE TRADE AGREEMENT

o The United States Foreign Commercial Service ranks inorganic and organic industrial chemicals among the top 20 export prospects to Canada in 1988. In 1986, LOUISIANA exported over $70 million worth of these and other chemical products to Canada. Over 28,000 LOUISIANA workers are employed in the chemical and allied products industry, making it the largest employer in the state's manufacturing sector.

  - The Free Trade Agreement expands the opportunities of LOUISIANA chemical and chemical product exporters by reducing Canadian duties on these products in stages until they are eliminated in January 1, 1998. Some chemical products which currently face substantial Canadian tariffs will enter the country duty free by January 1, 1993.

o With the expansion of government procurement opportunities through the FTA, LOUISIANA firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

o LOUISIANA exported over $37 million in fuel oil and petroleum coke and coal to Canada in 1986.

  - The Free Trade Agreement provides for free bilateral energy trade, ensuring LOUISIANA of a secure market for its exports. The FTA's energy provisions guarantee that Canada will not restrict imports, impose import taxes or establish minimum import price requirements, subject to very limited national security and short supply exceptions.

o Investment by Canadian companies in LOUISIANA is over $2 billion. Employment generated by Canadian investments is estimated to be nearly 9,000.

  - The FTA encourages additional LOUISIANA investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both LOUISIANA and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

- LOUISIANA conducts millions of dollars worth of services trade with Canada each year. Over 405,000 LOUISIANA workers are employed in the service, finance, insurance and real estate fields.

  - The FTA facilitates the entry of certain LOUISIANA business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.

  - The FTA enhances service trade opportunities for LOUISIANA businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

  - The FTA covers dozens of services in the agriculture and forestry, mining, construction, distributive trade, insurance and real estate, and commercial service sectors.

  - LOUISIANA firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.

  - Future licensing and certification requirements for LOUISIANA residents providing professional services such as accountants and engineers will be based primarily on competence and ability--not citizenship.

- In 1986, LOUISIANA exported about $8 million worth of fertilizer and fertilizer material to Canada. During the same year, it also imported over $3.5 million in newsprint from Canada.

  - The FTA ensures that these products continue to cross the Canada-United States border without tariffs. Duty free fertilizer products assist those working on LOUISIANA's 36,000 farms. More predictable prices on newsprint are important to LOUISIANA publications, such as some of the state's 26 daily newspapers, that import this commodity.

STATE STATISTICAL PROFILE: LOUISIANA

Population (July 1, 1987)	4,461,000
Area	47,752 square miles 123,677 square kilometers
State Personal Income ($ millions, 1986)	$50,382

Nonagricultural Employees- Total and By Industry Groups
(in 000s, October 1987)

Total:	1,508
Industry Groups:	
Mining	61
Construction	86
Manufacturing	171
Transportation and Public Utilities	108
Wholesale and Retail Trade	360
Finance, Insurance and Real Estate	84
Other Services	322
Government	318

Manufacturing Sector Employment- Total and Major Groups
(1985)

Total:	177,700
Chemicals and Allied Products	28,200
Transportation Equipment	22,900
Food and Kindred Products	18,900
Fabricated Metal Products	12,800
Petroleum and Coal Products	11,400

Service Sector Employment- Total and Major Groups
(1985)*

Total:	401,700
Health Services	92,500
Business Services	62,000
Banking	27,500
Membership Organizations	23,900
Hotels and Lodging Places	20,000

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in LOUISIANA

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$12,938
Canada	2,014

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	455
Canada	78

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986):	$267,[illegible]44

Leading LOUISIANA Exports to Canada:

Chemicals (Organic and Inorganic)	44,007
Rubber and Plastic Products	36,992
Fuel Oil	26,671
Non-Metallic Mineral Basic Products	26,106
Other Chemical Products	25,996
Coke of Petroleum and Coal	10,544
Fish and Marine Animals	10,233
Fertilizers & Fertilizer Materials	7,996
Valves	5,440
Engines and Turbines, General Purpose	4,446

Imports from Canada ($ 000s, 1986):	$186,310

Leading LOUISIANA Imports from Canada:

Motor Vehicle Parts, Except Engine	69,843
Engines and Turbines, General Purpose	5,083
Plastics Basic Shapes and Forms	4,934
Other End Products	4,900
Lumber, Softwood	4,617
Materials Handling Machinery and Equipment	4,511
Paper for Printing	4,318
Other Non-Metal Mineral Basic Products	3,987
Newsprint Paper	3,545
Crude Petroleum	3,338

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

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BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT FOR MAINE

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The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE MAINE-CANADA TRADING RELATIONSHIP

In 1986, Canada and MAINE traded over $1.4 billion worth of commodities.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for MAINE arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, MAINE's consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. MAINE's manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- MAINE exported $357 million worth of commodities to Canada in 1986.
    - Major exports included crude wood materials; paper and paper bond; fish and marine animals; lumber; telecommunications and related equipment; wood pulp and similar pulp; electronic tubes and semiconductors; motor vehicle engines, engine parts, and other motor vehicle parts; electric lighting distribution equipment; and safety and sanitation equipment.
- MAINE imported $1.1 billion worth of commodities from Canada in 1986.
    - Major imports included wood pulp and similar pulp, electricity, petroleum and coal products, fish products, softwood lumber, other non-metal mineral basic products, organic and inorganic products, newsprint paper, metal fabricated basic products, and iron and steel alloys.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
    - On a national per capita basis, MAINE's 1.2 million residents would be expected to account for $123 million of this trade. However, given MAINE's geographic location on the international border, it is possible that the state's services trade total with Canada is much higher than this figure.

  - MAINE service industry establishments recorded over $1.4 billion in revenues in 1982.

  - Major service industry employers include health, educational, social, hotel and lodging place, personal, and business services.

  - In 1986, 116,000 Canadian tourists spent $10 million in MAINE.

- Of MAINE's 105,000 manufacturing jobs, approximately eight percent are export related.

  - Export-related manufacturers' shipments totalled $900 million in 1983.

  - MAINE maintains 9,000 manufacturing positions which are export-related (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- In 1986, MAINE exported over $89 million worth of wood products, including lumber, crude wood materials, and wood and similar pulp. Over 13,000 people are employed in MAINE's lumber and wood products, and forestry industries.

  - The Free Trade Agreement will increase opportunities for MAINE exporters of wood products by phasing out the tariffs that now hinder trade.

- MAINE sold over $20 million worth of food, feed and beverages to Canada in 1986. This includes a variety of crops grown on MAINE's 8,000 farms.

  - MAINE's agricultural sector will profit from the FTA's phase out of Canadian tariffs and temporary duties on fresh fruits and vegetables.

  - Through the Free Trade Agreement, the Canadian and U.S. federal governments agree to "work together to improve access to each other's [agricultural] markets through the elimination or reduction of import barriers." This accord improves longer-term prospects for MAINE fruit and vegetable exporters.

  - MAINE food processors will be helped by the Free Trade Agreement's elimination of Canada's meat import laws (subject to certain conditions).

- Two of the top ten American export prospects to Canada in 1988, according to the U.S. Foreign Commercial Service in that country, are among MAINE's leading export items. Sales to Canada of these products--electronic tubes and semiconductors, and telecommunications and related equipment--totalled $12.7 million in 1986. Over 8,000 MAINE workers are employed in the electric and electronic equipment industry.
  - MAINE's opportunities will expand in these fast-growing sectors with the gradual elimination of duties on all electric and electronic devices. In addition, FTA provisions on enhanced telecommunications and computer services ensure further development of an open and competitive Canadian market, including access to and the use of the basic telecommunications network.
- With the expansion of government procurement opportunities through the FTA, MAINE firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.
- MAINE imported over $195 million in electricity and petroleum and coal products from Canada in 1986.
  - The Free Trade Agreement provides for free bilateral energy trade, ensuring MAINE nondiscriminatory access to energy supplies. The FTA's energy provisions guarantee that Canada will not restrict exports, impose export taxes or establish export price requirements, subject to very limited national security and short supply exceptions.
- Investment by Canadian companies in MAINE is $393 million. Employment generated by Canadian investments is estimated to be over nine thousand.
  - The FTA encourages additional MAINE investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both MAINE and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.
- MAINE conducts about $123 million dollars worth of services trade with Canada each year. Over 107,000 MAINE workers are employed in the service, finance, insurance and real estate fields.

- The FTA facilitates the entry of certain MAINE business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.

- The FTA enhances service trade opportunities for MAINE businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

- The FTA covers dozens of services in the agriculture and forestry, mining, construction, distributive trade, insurance and real estate, and commercial service sectors.

- MAINE firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.

- Future licensing and certification requirements for MAINE residents providing professional services (such as accountants and engineers) will be based primarily on competence and ability--not citizenship.

o The Free Trade Agreement assures retransmission rights for American broadcasters. Specifically, Canada's copyright law will provide U.S. each copyright holder with a right of equitable and non-discriminatory remuneration for any retransmission to the public of the copyrighter's programs (where the original transmission of the programs are carried in distant signals intended for free, over-the-air reception by the general public).

o Two of MAINE's imports from Canada--newsprint paper and fertilizers--enter the state duty free. Imports reached $12.7 and $7.0 million, respectively, in 1986.

The FTA will protect and extend the duty free status of these and other products which presently enter the U.S. without a tariff. This will provide some security to MAINE's newspapers and produce growers whose livelihoods depend in part on these commodities.

o The FTA specifically continues in force the 1986 U.S.-Canada Memorandum of Understanding on Softwood Lumber and allows measures necessary to enforce it. This agreement concerning Canadian provincial pricing practices for stumpage resolved a subsidy case against imports of Canadian softwood lumber.

STATE STATISTICAL PROFILE: MAINE

Population (July 1, 1987)	1,187,000
Area	33,265 square miles 86,156 square kilometers

Gross State Product ($ millions, 1985)

Total:	$14,899

Nonagricultural Employees- Total and By Industry Groups (in 000s, October 1987)

Total:	509
Industry Groups:	
Mining	0.1
Construction	31
Manufacturing	105
Transportation and Public Utilities	20
Wholesale and Retail Trade	127
Finance, Insurance and Real Estate	24
Other Services	110
Government	93

Manufacturing Sector Employment- Total and Major Groups (in 000s, 1985)

Total:	106
Paper and Allied Products	18
Leather and Leather Products	14
Lumber and Wood Products	13
Electric and Electronic Equip.	8
Food and Kindred Products	8

Service Sector Employment- Total and Major Groups (in 000s, 1985)*

Total:	108
Health Services	37
Business Services	8
Social Services	8
Banking	8
Insurance Carriers	6

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in MAINE

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$1,354
Canada	393

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	152
Canada	40

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986): $356,539

Leading MAINE Exports to Canada:

Crude Wood Materials	$73,025
Paper and Paper Board	45,169
Fish and Marine Animals	10,185
Lumber	8,219
Telecommunications and Related Equip.	4,512
Wood Pulp and Similar Pulp	8,113
Electronic Tables and Semiconductors	4,511
Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	4,099
Misc. Electrical Lighting Distribution Equipment	3,510
Safety and Sanitation Equipment	2,968

Imports from Canada ($ 000s, 1986): $1,065,005

Leading MAINE Imports from Canada:

Wood Pulp and Similar Pulp	$226,313
Electricity	107,643
Petroleum and Coal Products	87,527
Fish Products	71,418
Softwood Lumber	47,332
Other Non-metal, Mineral Basic Products	16,934
Organic and Inorganic Chemicals	16,033
Newsprint Paper	12,658
Metal Fabricated Basic Products	7,636
Iron and Steel and Alloys	7,049

Sources: Statistics Canada, U.S. Department of Commerce, U.S. Department of Labor and the Federal Reserve Bank of Boston.

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BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT
FOR MARYLAND

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The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE MARYLAND-CANADA TRADING RELATIONSHIP

In 1986, Canada and MARYLAND traded over $990.1 million worth of commodities.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for MARYLAND arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, MARYLAND consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. MARYLAND manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

o MARYLAND exported $343.6 million worth of commodities to Canada in 1986.

  - Major exports included motor vehicle engines, engine parts and other motor vehicle parts; various chemical products; hand tools and cutlery; telecommunications and related equipment; miscellaneous equipment and tools; electronic computers; excavating machinery; chemicals (organic and inorganic); medical and related supplies; and other measuring lab equipment.

o MARYLAND imported $646.5 million worth of commodities from Canada in 1986.

  - Major imports included iron ores and concentrates; softwood lumber; motor vehicle parts; newsprint paper; passenger automobiles and chassis; other equipment and tools; steel bars and rods; crude non-metallic materials; iron and steel and alloys; and other personal and household goods.

o In 1986, United States-Canada trade in services exceeded $25.4 billion.

  - On a national per capita basis, MARYLAND's 4.5 million residents would be expected to account for $473.2 million of this trade.

  - MARYLAND service industry establishments recorded over $9.9 billion in revenues in 1982.

- Major service industry employers include business, health, educational, membership organizations, and personal services.
- In 1986, 159,100 Canadian tourists spent $12 million in MARYLAND.

o More than one out of ten MARYLAND workers employed in the manufacturing sector hold jobs related to exports to foreign countries.

- $2.2 billion of MARYLAND manufacturing shipments are related to exports (1983).
- In the MARYLAND manufacturing sector, 23,000 positions depend on exports (1983).

IMPACT OF THE FREE TRADE AGREEMENT

o The two leading American export prospects to Canada in 1988, according to the U.S. Foreign Commercial Service in that country, are among MARYLAND's top export items. 1986 sales to Canada of these products--various motor vehicle components and electronic computers--were $93.2 million and $13.3 million, respectively. Over 20,000 MARYLAND residents are employed in the machinery industry, which produces many computer goods. Another 12,000 work in the manufacture of transportation equipment.

- MARYLAND automobile engine and parts producers stand to profit from the staged elimination of the Canadian restriction on the importation of used American motor vehicles.
- MARYLAND's auto sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.
- After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.

- The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

- The 3.9% Canadian duty on computers will end on January 1, 1989, increasing the price competitiveness of MARYLAND's electronic computer exports.

o With the expansion of government procurement opportunities through the FTA, MARYLAND firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

o Investment by Canadian companies in MARYLAND is over $1 billion. Employment generated by Canadian investments is estimated to be nearly 14,000.

- The FTA encourages additional MARYLAND investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both MARYLAND and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

o MARYLAND conducts millions of dollars worth of services trade with Canada each year. Over 645,000 MARYLAND workers are employed in the service, finance, insurance and real estate fields.

- The FTA facilitates the entry of certain MARYLAND business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.

- The FTA enhances service trade opportunities for MARYLAND businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

  - The FTA covers dozens of services in the agriculture and forestry, mining, construction, distributive trade, insurance and real estate, and commercial service sectors.
  - MARYLAND firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.
  - Future licensing and certification requirements for MARYLAND residents providing professional services such as accountants and engineers will be based primarily on competence and ability--not citizenship.

- In 1986, MARYLAND exported to Canada over $29 million in chemicals and chemical products, over $18 million in various telecommunications and related equipment, and over $18 million in hand tools and cutlery. Many of these commodities are among the top export prospects to Canada in 1988. Industrial inorganic and organic chemicals and telecommunications equipment are rated among the top 20 American export prospects to Canada in 1988. The manufacturing industries responsible for producing a number these products--the chemical, the electric and electronic, the instruments and related products, and the miscellaneous manufacturing industries--employ over 64,000 people in MARYLAND.
  - MARYLAND's opportunities expand in these fast-growing sectors with the staged elimination of duties on all of these products by January 1, 1998. In addition, FTA provisions on enhanced telecommunications and computer services ensure further development of an open and competitive Canadian market, including access to and the use of the basic telecommunications network.

- In 1986, MARYLAND imported over $38 million worth of newsprint paper.
  - The FTA reconfirms ensures that American newsprint paper in rolls will continue to enter the United States duty free in the years ahead. This will provide additional security to those working for MARYLAND's newspapers, including its 16 dailies.

STATE STATISTICAL PROFILE: MARYLAND

Population (July 1, 1987) 4,535,000

Area 10,460 square miles
27,092 square kilometers

State Personal Income ($ millions, 1986) $75,272

Nonagricultural Employees- Total and By Industry Groups (in 000s, October 1987)

Total:	1,998
Industry Groups:	
Mining	2
Construction	148
Manufacturing	208
Transportation and Public Utilities	94
Wholesale and Retail Trade	512
Finance, Insurance and Real Estate	121
Other Services	524
Government	388

Manufacturing Sector Employment- Total and Major Groups (1985)

Total:	239,700
Electric & Electronic Equip.	45,000
Printing and Publishing	26,100
Food and Kindred Products	24,000
Machinery, Except Electrical	20,600
Primary Metal Industries	15,200

Service Sector Employment- Total and Major Groups (1985)*

Total:	582,400
Business Services	128,700
Health Services	125,800
Educational Services	31,600
Real Estate	31,000
Membership Organizations	29,500

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in MARYLAND

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$3,140
Canada	1,051

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	481
Canada	60

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986): $343,603**

Leading MARYLAND Exports to Canada:

Motor Vehicle Engines, Engine Parts and Other Motor Vehicle Parts	$93,241
Misc. Chemical Products	20,449
Hand Tools and Cutlery	18,207
Telecommunications and Related Equip.	18,082
Miscellaneous Equip. & Tools	13,800
Electronic Computers	13,367
Chemicals (Organic and Inorganic)	8,632
Medical, Opthalmic, and Ortho. Supplies	6,169
Measuring Equipment (e.g. Lab Equipment)	6,134

Imports from Canada ($ 000s, 1986): $646,516

Leading MARYLAND Imports from Canada:

Iron Ores and Concentrates	$105,549
Lumber, Softwood	83,581
Motor Vehicle Parts, Except Engine	55,129
Newsprint Paper	38,871
Passenger Automobiles and Chassis	27,196
Other Equipment and Tools	23,283
Bars and Rods, Steel	22,708
Various Crude Non-metallic Materials	21,052
Iron and Steel and Alloys	12,066
Personal and Household Goods	11,760

** It is likely that exports from the State of MARYLAND to Canada are underestimated. Approximately one out of every seven dollars worth of U.S. exports to Canada cannot be assigned to a state. Most of these exports are automotive products, which are among MARYLAND's leading exports to Canada.

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT FOR MASSACHUSETTS

Prepared by

The Office of Canada
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Washington, D.C. 20230
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March 7, 1988

The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE MASSACHUSETTS-CANADA TRADING RELATIONSHIP

In 1986, Canada and MASSACHUSETTS traded $3.8 billion worth of commodities.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for MASSACHUSETTS arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, MASSACHUSETTS consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. MASSACHUSETTS manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- MASSACHUSETTS exported $1.5 billion worth of commodities to Canada in 1986.
  - Major exports included electronic computers; aircraft engines, engine parts and other aircraft parts; miscellaneous telecommunications and related equipment; electronic tubes and semiconductors; plastics products; fish and marine animals; and miscellaneous measuring equipment.
- MASSACHUSETTS imported $2.4 billion worth of commodities from Canada in 1986.
  - Major imports included softwood lumber; newsprint paper; petroleum and coal products; iron and steel and alloys; fish products; precious metals; electricity; and other non-metal mineral basic products.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
  - On a national per capita basis, MASSACHUSETTS' 5.9 million residents would be expected to account for $589 million of this trade.
  - MASSACHUSETTS service industry establishments recorded $15.9 billion in revenues in 1982.
  - Major service industry employers include health, business, educational, personal, membership

organizations, legal, auto repair, and miscellaneous services.

  - In 1986, over 412,000 Canadian tourists spent $62 million in MASSACHUSETTS.

- Approximately one of every eight MASSACHUSETTS workers employed in the manufacturing sector hold positions that are related to foreign exports.

  - Export-related manufacturers' shipments totalled $7 billion in 1983.

  - 81,000 manufacturing jobs in MASSACHUSETTS depend on exports (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- The U.S. Foreign Commercial Service in Canada reports that computers and peripherals are the number one export prospect to that country in 1988. During 1986, MASSACHUSETTS' leading export to Canada was electronic computers, with sales of $480 million. Exports of two other leading prospects--telecommunications equipment and electronic tubes and semiconductors--were $95 million in 1986. Nearly 108,000 MASSACHUSETTS workers are employed in the machinery industry, which produces a number of computer products. Another 113,000 are employed in the state's electric and electronic equipment industry, the largest industry in MASSACHUSETTS' manufacturing sector.

  - The 3.9% Canadian duty on computers will end on January 1, 1989. Duties on various electronic devices will be completely phased out by 1998. The FTA provisions on enhanced telecommunications and computer services ensure further development of an open and competitive Canadian market, including access to and the use of the basic telecommunications network. These changes will make MASSACHUSETTS exporters of high-tech products more competitive in the Canadian market.

- In 1986, MASSACHUSETTS exported $115 million in aircraft and motor vehicle engines, engine parts and other parts. These commodities are among the top three prospects for export to Canada in 1988, and are among the leading goods sold by MASSACHUSETTS to Canada. Over 26,000 workers are employed in the state's transportation equipment manufacturing industry.

  - MASSACHUSETTS aircraft engine and parts producers stand to gain from the staged elimination of the Canadian restriction on the importation of used American aircraft and used American motor vehicles.

  - MASSACHUSETT's auto sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.

  - After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.

  - The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

o With the expansion of government procurement opportunities through the FTA, MASSACHUSETTS firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

o Investment by Canadian companies in MASSACHUSETTS equaled $620 million in 1985. Employment generated by Canadian investments is estimated at over 9,500.

  - The FTA encourages additional MASSACHUSETTS investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both MASSACHUSSETTS and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

o MASSACHUSETTS conducts hundreds of millions of dollars worth of services trade with Canada each year. The MASSACHUSETTS service, finance, insurance and real estate fields employ 1.1 million workers.

  - The FTA facilitates the entry of certain MASSACHUSETTS business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise without the customs delays that now exist.
  - The FTA enhances service trade opportunities for MASSACHUSETTS businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.
  - The FTA covers a wide range of services, including dozens in the agricultural and forestry, mining, construction, distributive trade, insurance and real estate, and commercial service sectors.
  - MASSACHUSETTS firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.
  - Future licensing and certification requirements for MASSACHUSETTS residents providing services such as accountants and engineers will be based primarily on competence and ability--not citizenship.

- The Free Trade Agreement assures retransmission rights for American broadcasters. Specifically, Canada's copyright law will provide each U.S. copyright holder with a right of equitable and non-discriminatory remuneration for any retransmission to the public of the copyrighter's programs (where the original transmission of the programs are carried in distant signals intended for free, over-the-air reception by the general public).

- In 1986, MASSACHUSETTS imported $283 million in Canadian petroleum and coal products and electricity.
  - The Free Trade Agreement provides for free bilateral energy trade, ensuring MASSACHUSETTS nondiscriminatory access to energy supplies. The FTA's energy provisions guarantee that Canada will not restrict exports, impose export taxes or establish export price requirements, subject to very limited national security and short supply exceptions.

- In 1986, MASSACHUSETTS imported over $172 million worth of newsprint paper from Canada.
  - The FTA reconfirms the duty free status of newsprint paper imported into the United States from Canada. This provides some security to MASSACHUSETTS publishers whose livelihood depends in part on access to this commodity.
- The FTA specifically continues in force the 1986 U.S.-Canada Memorandum of Understanding on Softwood Lumber and allows measures necessary to enforce it. This agreement concerning Canadian provincial pricing practices for stumpage resolved a subsidy case against imports of Canadian softwood lumber.

STATE STATISTICAL PROFILE: MASSACHUSETTS

Population (July 1, 1987)	5,855,000
Area	8,284 square miles 21,456 square kilometers

Gross State Product ($ millions, 1985)

Total:	$127,876

Nonagricultural Employees- Total and By Industry Groups
(in 000s, October 1987)

Total:	3,078
Industry Groups:	
Mining	2
Construction	134
Manufacturing	605
Transportation and Public Utilities	130
Wholesale and Retail Trade	724
Finance, Insurance and Real Estate	214
Other Services	876
Government	392

Manufacturing Sector Employment- Total and Major Groups
(in 000s, 1985)

Total:	679
Electric and Electronic Equip.	113
Machincery (Except Electrical)	108
Printing and Publishing	54
Fabricated Metal Products	52
Administrative and Auxiliary	51

Service Sector Employment- Total and Major Groups
(in 000s, 1985)*

Total:	1,038
Health Services	243
Business Services	163
Educational Services	131
Miscellaneous Services	68
Insurance Carriers	57

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in MASSACHUSETTS

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$3,085
Canada	620

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	540
Canada	73

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986): $1,462,784

Leading MASSACHUSETTS Exports to Canada:

Electronic Computers	$479,740
Aircraft Engines, Engine Parts, and Other Aircraft Parts	99,616
Misc. Telecommunications and Related Equipment	50,932
Electronic Tubes and Semiconductors	43,705
Plastics Products	39,174
Fish and Marine Animals	34,317
Misc. Measuring (Lab Equip., etc.)	28,868
Paper and Paperboard	27,904
Misc. Printing Machinery and Equip.	22,601
Medical and Related Equipment	19,326

Imports from Canada ($ 000s, 1986): $2,358,566

Leading MASSACHUSETTS Imports from Canada:

Fish Products	$620,776
Softwood Lumber	193,626
Petroleum and Coal Products	191,055
Newsprint Paper	172,112
Office Machines and Equipment	167,566
Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	126,537
Electricity	91,466
Misc. Non-Metal Mineral Basic Products	45,040
Precious Metals (Including Alloys)	43,653
Misc. Telecommunications and Related Equipment	37,056

Sources: Statistics Canada, U.S. Department of Commerce, U.S. Department of Labor and the Federal Reserve Bank of Boston.

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BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT FOR MICHIGAN

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The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE MICHIGAN-CANADA TRADING RELATIONSHIP

In 1986, Canada and MICHIGAN traded over $25.7 billion worth of commodities. MICHIGAN carries on more trade with Canada than any other U.S. state. In fact, MICHIGAN conducts more business with Canada than Japan and the United Kingdom combined. These two nations are Canada's second and third leading trade partners, respectively.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for MICHIGAN arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, MICHIGAN's consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. MICHIGAN's manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- o MICHIGAN exported $8.2 billion worth of commodities to Canada in 1986.*
    - Major exports included motor vehicle parts, motor vehicle engines, motor vehicle engine parts, crude petroleum and petroleum products, auxiliary electric equipment for engines, special industrial machinery, bolts, nuts, and screws, machine tools, and metalworking machinery.
- o MICHIGAN imported $17.5 billion worth of commodities from Canada in 1986.
    - Major imports included passenger automobiles and chassis, trucks, motor vehicle parts, motor vehicle engines, crude petroleum, natural gas, newsprint paper, plate, sheet, and strip steel, and lumber and softwood.
- o In 1986, United States-Canada trade in services exceeded $25.4 billion.
    - On a national per capita basis, MICHIGAN'S 9.2 million residents would be expected to account for $961 million of this trade. Given the state's geographic location on the Canadian border, however, it is likely that this figure is far higher.

- MICHIGAN service industry establishments recorded over $15.3 billion in revenues in 1982.

- Major service industry employers include hotels and other lodging places, business services, health services, personal services, and social services.

- In 1986, 810,600 Canadian tourists spent $59 million in MICHIGAN.

o Nearly one out of seven MICHIGAN workers employed in the manufacturing sector hold export-related positions. This makes the state more dependent on exports than the United States as a whole, since about one in nine U.S. manufacturing positions are related to exports.

- $15.4 billion of MICHIGAN's manufacturing shipments are related to exports (1983).

- In the MICHIGAN manufacturing sector, 112,000 positions are dependent on exports (1983).

IMPACT OF THE FREE TRADE AGREEMENT

o By far, the leading MICHIGAN export to Canada is motor vehicle components, including auto engines, engine parts, and other motor vehicle parts. MICHIGAN exported about $5.8 billion worth of these products to Canada in 1986, representing over 70% of their exports north. The U.S. Foreign Commercial Service in Canada has ranked auto parts and accessories as the second leading export prospect to Canada in 1988. Most of the American exports of motor vehicle components originate in MICHIGAN. The manufacture of transportation equipment is MICHIGAN's largest industry group after health services, employing over a quarter of a million residents.

- MICHIGAN motor vehicle engine and parts manufacturers will benefit from the phaseout of Canadian import restrictions on used motor vehicles, and the elimination of tariffs on specified after market parts in stages by January 1, 1993.

- MICHIGAN's auto sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.

  - After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.

  - The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

- MICHIGAN is one of the country's leading producers of metal office furniture. In 1986, the state sold over $25.4 million worth of furniture and fixtures and office machines and equipment to Canada. MICHIGAN's furniture and fixture manufacturing industry employs over 25,000 workers.

  - The Free Trade Agreement enhances MICHIGAN's export opportunities in office furniture through the elimination of high Canadian tariffs on these products. Many duties on such equipment will be completely eliminated by January 1, 1993.

- With the expansion of government procurement opportunities through the FTA, MICHIGAN firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

- MICHIGAN imported over $655 million in crude petroleum, petroleum and coal products, and natural gas in 1986. This represents approximately 4% of the state's energy expenditures. In addition, the state exported over $232 million in crude petroleum and petroleum and coal products to Canada during the same year.

  - The Free Trade Agreement provides for free bilateral energy trade, ensuring MICHIGAN nondiscriminatory access to energy supplies. The FTA's energy provisions guarantee that Canada will not restrict exports, impose export taxes or establish export price requirements, subject to very limited national security and short supply exceptions.

- Investment by Canadian companies in MICHIGAN is $1.9 billion. Employment generated by Canadian investments is estimated to be over 17,500.
  - The FTA encourages additional MICHIGAN investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both MICHIGAN and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.
- MICHIGAN conducts hundreds of millions dollars worth of services trade with Canada each year. Over 986,400 MICHIGANDERS work in the service, finance, insurance and real estate fields.
  - The FTA facilitates the entry of certain MICHIGAN business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.
  - The FTA enhances service trade opportunities for MICHIGAN businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.
  - The FTA covers dozens of services in the agriculture and forestry; mining; construction; distributive trade; insurance and real estate; and commercial service sectors.
  - MICHIGAN firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.
  - The FTA ensures that open markets for tourists and tourism service providers will continue for this important MICHIGAN industry. When the MICHIGAN tourism industry provides services to a Canadian visitor, that is an "invisible" export.
  - Future licensing and certification requirements for MICHIGAN residents providing professional services (such as accountants and engineers) will be based primarily on competence and ability--not citizenship.

- During 1986, MICHIGAN imported over $173 million worth of newsprint.
    - At present, imports of Canadian newsprint in rolls enter the United States without tariff. The Free Trade Agreement ensures that the duty free treatment on this product remains intact in the years ahead. This will provide some security to the state's newspapers--including 52 dailies--which depend on access to this commodity.
- The Free Trade Agreement assures retransmission rights for American broadcasters. Specifically, Canada's copyright law will provide each U.S. copyright holder with a right of equitable and non-discriminatory remuneration for any retransmission to the public of the copyrighter's programs (where the original transmission of the programs are carried in distant signals intended for free, over-the-air reception by the general public).
- The FTA specifically continues in force the 1986 U.S.-Canada Memorandum of Understanding on Softwood Lumber and allows measures necessary to enforce it. This agreement concerning Canadian provincial pricing practices for stumpage resolved a subsidy case against imports of Canadian softwood lumber.

STATE STATISTICAL PROFILE: MICHIGAN

Population (July 1, 1987)	9,200,000
Area	58,527 square miles 151,586 square kilometers
State Personal Income ($ millions, 1986)	$135,113

Nonagricultural Employees- Total and By Industry Groups (in 000s, October 1987)

Total:	3,744
Industry Groups:	
Mining	11
Construction	151
Manufacturing	966
Transportation and Public Utilities	148
Wholesale and Retail Trade	858
Finance, Insurance and Real Estate	178
Other Services	808
Government	627

Manufacturing Sector Employment- Total and Major Groups (1985)

Total:	979,600
Transportation Equipment	253,700
Fabricated Metal Products	126,300
Machinery, Except Electrical	123,500
Administrative and Auxiliary	111,800
Rubber and Misc. Plastic Prod.	41,600

Service Sector Employment- Total and Major Groups (1985)**

Total:	902,900
Health Services	267,900
Business Services	144,800
Membership Organizations	54,600
Banking	49,900
Social Services	44,600

**Includes Finance, Insurance and Real Estate Industries

Foreign Investment in Michigan

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$6,192
Canada	1,990

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	522
Canada	97

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986): $8,201,721*

Leading Michigan Exports to Canada:

Motor Vehicle Parts, Except Engines	4,965,410
Motor Vehicle Engines	535,053
Motor Vehicle Engine Parts	295,207
Crude Petroleum	131,239
Auxiliary Elec. Equip. for Engines	109,643
Misc. Petroleum and Coal Products	100,939
Misc. Special Industrial Machinery	96,511
Bolts, Nuts, and Screws	75,308
Machine Tools, Metalworking	72,305
Misc. Metalworking Machinery	69,632
Misc. Metal Fabricated Basic Products	8,590

Imports from Canada ($ 000s, 1986): $17,519,827

Leading MICHIGAN Imports from Canada:

Passenger Automobiles and Chassis	8,775,048
Trucks, Truck Tractors and Chassis	2,435,147
Motor Vehicle Parts, Except Engines	2,417,606
Motor Vehicle Engines and Parts	977,211
Crude Petroleum	278,244
Natural Gas	191,754
Petroleum and Coal Products	189,444
Newsprint Paper	173,483
Plate, Sheet, and Strip Steel	169,475
Lumber, Softwood	148,025

* It is likely that exports from the State of MICHIGAN to Canada are underestimated. Approximately one out of every seven dollars worth of U.S. exports to Canada cannot be assigned to a state. Most of these exports are automotive products, which are among MICHIGAN's leading exports to Canada.

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT FOR MINNESOTA

Prepared by

The Office of Canada
International Trade Administration
U.S. Department of Commerce (Room 3033)
Washington, D.C. 20230
(202) 377-3101

March 7, 1988

The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE MINNESOTA-CANADA TRADING RELATIONSHIP

In 1986, Canada and MINNESOTA traded $2.7 billion worth of commodities. This is equivalent to 4% of the gross state product.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for MINNESOTA arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, MINNESOTA consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. MINNESOTA manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- MINNESOTA carries on a disproportionate share of U.S.-Canada trade (1.76% of U.S. population and 1.79% of U.S. personal income versus 2.23% of U.S.-Canada trade).
- MINNESOTA exported $1.9 billion worth of commodities to Canada in 1986.
    - Major exports included electronic computers; oil seed cake and meal; motor vehicles and their components; miscellaneous equipment and tools; telecommunications equipment; and iron ores and concentrates.
- MINNESOTA imported $783 million worth of commodities from Canada in 1986.
    - Major imports included crude petroleum; natural gas; fertilizers and fertilizers material; softwood lumber; wood and similar pulp; newsprint paper and electricity; and motor vehicle parts.
- In 1986, United States-Canada services trade exceeded $25 billion.
    - On a per capita basis, MINNESOTA's 4.2 million residents would be expected to account for $450 million of this trade. However, given the state's geographic location on the Canadian border, it is likely that this figure is much higher.
    - Tourism, banking and financial-related services are major service sectors represented in Canada-MINNESOTA trade.

  - In 1986, 294,000 Canadian tourists spent $26 million in MINNESOTA.
  - Canadian tourism generates approximately 1,200 jobs for MINNESOTA.

- Over 1,200 MINNESOTA manufacturing establishments export their products.
  - Over 47,000 of the 372,500 jobs maintained by MINNESOTA manufacturing establishments are export-related (1984).
  - Sales to Canada account for over 6,000 export-related jobs among MINNESOTA manufacturing establishments.

IMPACT OF THE FREE TRADE AGREEMENT

- Two of MINNESOTA's leading export markets in Canada are computers and telecommunications equipment, with 1986 sales totalling $120.9 million and $22.8 million, respectively. Over 59,000 MINNESOTANS are employed in the following industries: Office and computing machines, computing and data processing services, and communication equipment.
  - MINNESOTA's sales to these fast-growing Canadian high-technology markets can be expected to increase under the FTA with the elimination of tariffs on numerous computer products in 1989, and the reduction of nontariff barriers in enhanced telecommunications and computer services.
- MINNESOTA imported over $1 billion worth of Canadian energy in 1986 (crude petroleum, natural gas and electricity); this represents about fourteen percent of the state's energy expenditures.
  - The Free Trade Agreement provides for free bilateral energy trade, ensuring MINNESOTA nondiscriminatory access to Canadian-based energy supplies. The FTA's energy provisions guarantee that Canada will not restrict exports, impose export taxes or establish export price requirements, subject to very limited national security and short supply exceptions.
- With the expansion of government procurement opportunities through the FTA, MINNESOTA firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

- Over 5,000 MINNESOTANS work full- or part-time in the motor vehicles and equipment industry. In 1986, MINNESOTA exported to Canada $50.6 million in motor vehicles and parts.
  - MINNESOTA's automobile and auto parts producers stand to profit from the staged elimination of the Canadian restriction on the importation of used American motor vehicles.
  - MINNESOTA's auto sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.
  - After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.
  - The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.
- Investment by Canadian companies in MINNESOTA exceeds $2.6 billion. Employment generated by Canadian investments is estimated to be 12,000.
  - The FTA encourages additional MINNESOTA investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both MINNESOTA and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

- An estimated 155,000 MINNESOTANS are employed in the Agricultural sector. In 1986, MINNESOTA exported to Canada $64 million worth of oil seed cake and meal, shelled corn and other cereals.
  - The FTA supports MINNESOTA's exports of these products by phasing out agricultural tariffs, gradually eliminating Canadian import licenses for various grain products, and reducing subsidies provided to grain products moving through western Canadian markets to the United States.
- MINNESOTA conducts millions of dollars worth of services trade with Canada each year. Over 614,000 MINNESOTANS are employed in the services sector.
  - The FTA enhances service trade opportunities for MINNESOTA businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.
  - The FTA facilitates the entry of certain MINNESOTA business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.
  - The FTA covers dozens of service sectors, including construction, enhanced telecommunications, insurance, professional services, wholesale and retail trade, tourism and management services.
  - MINNESOTA firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.
  - Future licensing and certification requirements for MINNESOTANS providing professional services such as accountants and engineers will be based primarily on competence and ability--not citizenship.
- The FTA specifically continues in force the 1986 U.S.-Canada Memorandum of Understanding on Softwood Lumber and allows measures necessary to enforce it. This agreement concerning Canadian provincial pricing practices for stumpage resolved a subsidy case against imports of Canadian softwood lumber.

STATE STATISTICAL PROFILE: MINNESOTA

Population (July 1, 1986)	4,214,000
Area	84,402 square miles 218,601 square kilometers

Gross State Product ($ millions, 1985)

Total:	69,109
Farm:	2,693
Nonfarm:	66,416

Civilian Labor Force (1986)	2,213,000

Employment (000s, 1986)

Total:	2,095
Agriculture:	155
Manufacturing:	371
Services (Private Sector Only)	1,016

Manufacturing Sector Employment (1986)

Nondurable Goods:	154,400
Printing & Publishing	45,800
Food & Kindred Products	45,200
Paper & Allied Products	32,500
Rubber & Miscellaneous Plastics	12,200
Other Nondurable	18,800
Durable Goods:	228,700
Machinery (Except Electrical)	81,800
Fabricated Metal Products	33,800
Instruments & Related Products	30,900
Electric & Electronic Equipment	26,500

High Technology Sector Employment (1985)

Total:	109,100
Manufacturing High Tech:	89,900
Office and Computing	42,800
Selected Instruments	18,900
Electronic Components	10,700

Services High Tech:	19,300
Computing & Data Processing	8,400
Engineering, Architectural & Research Organizations	10,900

Foreign Investment in MINNESOTA

Gross Book Value of Property, Plant and Equipment of Affiliates, (Millions of dollars, 1985):

All Countries	4,429
Canada	2,603

Number of Affiliates of Foreign Countries With Property, Plant and Equipment (1985):

All Courtries	362
Canada	68

Foreign Trade

Manufacturing Firms with Export Activity (1984):	1,208
Export Related Employment Among Export Related Manufactures (1984):	11.5%
Exports to Canada ($ 000s, 1986):	$782,992*

Leading MINNESOTA Exports to Canada:

Electronic Computers	$120,880
Oil Seed Cake and Meal	38,045
Motor Vehicle Parts and Engines	28,394
Miscellaneous Equip. & Tools:	25,481
Iron Ores and Concentrates	23,375
Other Telecommunications & Related Equipment	22,847
Passenger Autos, Trucks & Other Motor Vehicles	22,167
Medical, Opthalmic, & Ortho. Supplies	17,937
Shelled Maize (Corn)	15,607
Misc. Measuring & Meas.-Control Instruments	15,297

Imports from Canada ($ 000s, 1986): $1,907,258

Leading MINNESOTA Imports from Canada:

Crude Petroleum	$732,836
Natural Gas	232,750
Fertilizers & Fert. Material	97,312
Softwood Lumber	84,672
Wood & Similar Pulp	84,177
Newsprint Paper	73,872
Electricity	64,874
Motor Vehicle Parts & Engines	63,684
Petroleum & Coal Products	63,023
Other Paper for Printing	36,508

* It is likely that exports from the State of MINNESOTA to Canada are underestimated. Approximately one out of every seven dollars worth of U.S. exports to Canada cannot be assigned to a state. Most of these exports are automotive products, which are among MINNESOTA's leading exports to Canada.

Sources: Statistics Canada and the U.S. Department of Commerce.

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THE MISSISSIPPI-CANADA TRADING RELATIONSHIP

In 1986, Canada and MISSISSIPPI traded over $214.8 million worth of commodities. Whereas the United States traditionally runs a goods trade deficit with Canada, MISSISSIPPI exports over 16% more to Canada than it imports from that country.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for MISSISSIPPI arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, MISSISSIPPI consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. MISSISSIPPI manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- MISSISSIPPI exported $115.7 million worth of commodities to Canada in 1986.
  - Major exports included the following: motor vehicle engines, engine parts, and other motor vehicle parts; auxiliary electrical equipment for engines; equipment and tools; crude wood materials; fish and marine animals; newspapers, magazines and periodicals; telecommunications and related equipment; truck tractor trailers; electric generators and motors; and other metal fabricated basic products.
- MISSISSIPPI imported $99.2 million worth of commodities from Canada in 1986.
  - Major imports included the following: wood pulp and similar pulp; motor vehicle engines, engine parts, and other motor vehicle parts; softwood lumber; newsprint paper; prefabricated buildings and structures; synthetic rubber and plastics materials; ships, boats and parts; plate, sheet and strip steel; materials handling machinery and equipment; and other inedible fabricated materials.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
  - MISSISSIPPI service industry establishments recorded over $2.4 billion in revenues in 1982.

  - Major service industry employers include health, business, membership organizations, social, and hotel and other lodging services.
  - In 1986, 16,300 Canadian tourists spent $2 million in MISSISSIPPI.

- Approximately one out of fourteen MISSISSIPPI manufacturing positions depend on exports to foreign countries.
  - $2.0 billion of MISSISSIPPI manufacturing shipments are related to exports (1983).
  - In the MISSISSIPPI manufacturing sector, 14,000 positions are dependent on exports (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- Two of the leading American export prospects to Canada in 1988, according to the U.S. Foreign Commercial Service in that country, are among MISSISSIPPI's top sales items to Canada. 1986 sales to Canada of these products--various motor vehicle components and telecommunications equipment--were $31.4 million and $3.3 million, respectively. Over 20,000 MISSISSIPPIANS are employed in the electric and electronic equipment industry, which produces many telecommunications goods. Another 18,500 work in the manufacture of transportation equipment.
  - MISSISSIPPI's auto sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment within its borders by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.
  - After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.
  - The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from

third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

- MISSISSIPPI's opportunities expand in the fast-growing high-technology sector with the gradual elimination of Canadian duties on these products. FTA provisions on enhanced telecommunications and computer services ensure further development of an open and competitive Canadian market, including access to and the use of the basic telecommunications network.

o With the expansion of government procurement opportunities through the FTA, MISSISSIPPI firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

o Investment by Canadian companies in MISSISSIPPI is over $590 million. Employment generated by Canadian investments is estimated to be over 3,800.

- The FTA encourages additional MISSISSIPPI investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both MISSISSIPPI and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

o In 1986, MISSISSIPPI exported $3.5 million in periodicals, newspapers, and magazines to Canada. Periodicals are ranked among the top 20 U.S. export prospects to Canada during 1988. MISSISSIPPI's printing and publishing industry employs over 6,500 people.

- The FTA enhances export opportunities for MISSISSIPPI's publishers through the phaseout of remaining duties on products of the printing industry by January 1, 1993.

- The FTA also eliminates the "Print in Canada" requirement that has limited taxpayer income expense deductions to the purchase of advertising space in publications typeset or published in Canada.

- MISSISSIPPI conducts millions of dollars worth of services trade with Canada each year. Over 180 thousand MISSISSIPPIANS work in the service, finance, insurance and real estate fields.
  - The FTA facilitates the entry of certain MISSISSIPPI business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.
  - The FTA enhances service trade opportunities for MISSISSIPPI businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.
  - The FTA covers dozens of services in the agriculture and forestry, mining, construction, distributive trade, insurance and real estate, and commercial service sectors.
  - MISSISSIPPI firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.
  - Future licensing and certification requirements for MISSISSIPPI residents providing professional services such as accountants and engineers will be based primarily on competence and ability--not citizenship.
- In 1986, MISSISSIPPI imported over $7 million worth of newsprint paper.
  - The FTA ensures that newsprint paper in rolls continues to enter the United States duty free in the years ahead. This will provide some security to those working on MISSISSIPPI's 23 daily and other newspapers.
- The FTA specifically continues in force the 1986 U.S.-Canada Memorandum of Understanding on Softwood Lumber and allows measures necessary to enforce it. This agreement concerning Canadian provincial pricing practices for stumpage resolved a subsidy case against imports of Canadian softwood lumber.

STATE STATISTICAL PROFILE: MISSISSIPPI

Population (July 1, 1987)	2,625,000
Area	47,689 square miles 123,515 square kilometers
State Personal Income ($ millions, 1986)	$25,504

Nonagricultural Employees- Total and By Industry Groups (in 000s, October 1987)

Total:	878
Industry Groups:	
Mining	7
Construction	36
Manufacturing	227
Transportation and Public Utilities	41
Wholesale and Retail Trade	188
Finance, Insurance and Real Estate	39
Other Services	141
Government	198

Manufacturing Sector Employment- Total and Major Groups (1985)

Total:	211,800
Apparel & Other Textile Prod.	34,100
Lumber and Wood Products	22,400
Electric & Electronic Equip.	20,300
Food and Kindred Products	20,000
Transportation Equipment	18,600

Service Sector Employment- Total and Major Groups (1985)*

Total:	156,100
Health Services	38,900
Business Services	40,100
Membership Organizations	13,300
Banking	12,900
Social Services	11,200

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in MISSISSIPPI

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$2,312
Canada	598

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	300
Canada	57

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986): $115,662*

Leading MISSISSIPPI Exports to Canada:

Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	$31,421
Auxiliary Electrical Equipment for Engines	6,226
Miscellaneous Equipment and Tools	5,891
Crude Wood Materials	4,015
Fish and Marine Animals	3,969
Newspapers, Magazines & Periodicals	3,561
Various Telecom. and Related Equipment	3,332
Ind. Trucks, Tractor Trailers (Stack.)	2,926
Electric Generators and Motors	2,401
Misc. Metal Fabricated Basic Products	2,370

Imports from Canada ($ 000s, 1986): $99,162

Leading MISSISSIPPI Imports from Canada:

Wood Pulp and Similar Pulp	$12,986
Motor Vehicle Parts, Except Engines	12,634
Lumber, Softwood	10,479
Newsprint Paper	7,145
Prefab Buildings and Structures	3,873
Synthetic Rubber & Plastics Materials	3,584
Ships, Boats and Parts	3,135
Plate, Sheet and Strip Steel	2,898
Materials Handling Machinery & Equip.	2,395
Misc. Fabricated Materials, Inedible	2,198

* It is likely that exports from the State of MISSISSIPPI to Canada are underestimated. Approximately one out of every seven dollars worth of U.S. exports to Canada cannot be assigned to a state. Most of these exports are automotive products, which are among MISSISSIPPI's leading exports to Canada.

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

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THE MISSOURI-CANADA TRADING RELATIONSHIP

In 1986, Canada and MISSOURI traded $1.8 billion worth of commodities.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for MISSOURI arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, MISSOURI consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. MISSOURI manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- MISSOURI exported $841.5 million worth of commodities to Canada in 1986.
  - Major exports included aircraft; motor vehicle engines, engine parts and other motor vehicle parts; chemical products; telecommunications and related equipment; combine reaper-threshers; aircraft engines, engine parts and other aircraft parts.
- MISSOURI imported $930.1 million worth of commodities from Canada in 1986.
  - Major imports included motor vehicle engines, engine parts and other motor vehicle parts; newsprint paper; softwood lumber; aircraft engines, engine parts and other aircraft parts, aircraft parts; navigation equipment; synthetic rubber and plastics products; organic and other inorganic chemicals.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
  - Over 28,000 MISSOURI service establishments recorded $9.4 billion in revenues in 1982.
  - Major service industry employers include health services, business services, and banking.
  - In 1986, 56,000 Canadian tourists spent $8 million in MISSOURI.

- Approximately 37,000 MISSOURI jobs are maintained by export-related manufacturing.
  - Approximately $4.7 billion of the state's manufacturing shipments depend on exports to other countries (1983).
  - Over 9% of MISSOURI's manufacturers' shipments are export-related (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- One of MISSOURI's tops sales items to Canada is also among the leading American export prospects to that country in 1988. Exports to Canada of various motor vehicle components reached nearly $66 million in 1986.
  - MISSOURI automobile component producers will benefit from the phaseout of Canadian import restrictions on used motor vehicles from the United States, and the elimination of duties on replacement auto parts by 1993.
  - MISSOURI's auto sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.
  - After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.
  - The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the

competitive ability of North American motor vehicle and motor vehicle parts producers.

- With the inclusion of a technical standards provision in the FTA, MISSOURI firms will see increased discipline over the use of standards-related measures for the more than $24 million in telecommunications products exported to Canada.

- Two of MISSOURI's leading exports to Canada include aircraft and chemical products. Together these products account for over $398 million of the state's exports to Canada. Over 90,000 persons are employed in the MISSOURI industries which manufacture chemicals and transportation equipment.

  - The Free Trade Agreement will allow MISSOURI to increase its exports of these products by phasing out tariffs and non-tariff barriers such as regulations on used aircraft that now restrict the entry of such goods into Canada.

- One of MISSOURI's leading exports to Canada is aircraft ($382 million in 1986). Over 67,000 are employed in the MISSOURI industry producing transportation equipment.

  - The FTA removes import restrictions on used aircraft in Canada, which should contribute to an increased demand for aircraft engines and parts and aircraft parts. Hence, it should contribute to increased demand for new and used aircraft from American suppliers.

- Investment by Canadian companies in MISSOURI is $880 million. Employment generated by Canadian investments is estimated to be over 12,600.

  - The FTA encourages additional MISSOURI investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both MISSOURI and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

- MISSOURI conducts millions of dollars worth of services trade with Canada each year. Over 599,000 employees work in the service, finance, insurance and real estate fields.

  - The FTA facilitates the entry of certain MISSOURI business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise without the customs delays that now exist.

- The FTA enhances service trade opportunities for MISSOURI businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

- The FTA covers a wide range of service sectors, including construction, metal mining, hotel reservation, credit bureau, real estate, oil and gas field, tourism and management services.

- MISSOURI firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.

- Future licensing and certification requirements for MISSOURI residents providing professional services such as accountants and engineers will be based primarily on competence and ability--not citizenship.

o With the expansion of government procurement opportunities through the FTA, MISSOURI firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

STATE STATISTICAL PROFILE: MISSOURI

Population (July 1, 1987)	5,103,000
Area	69,697 square miles 180,516 sq. kilometers

Gross State Product ($ millions, 1986)

Total:	$87,535
Private, Nonfarm:	78,512
Government:	7,222
Farm:	1,801

Nonfarm Employees- Total and Selected Industry Groups (1985)

Total:	1,772,600
Selected Industry Groups:	
Agricultural Services, Forestry and Fish	6,200
Mining	6,700
Contract Construction	90,600
Manufacturing	426,100
Transportation and Public Utilities	131,700
Wholesale Trade	136,400
Retail Trade	354,100
Finance, Insurance and Real Estate	122,800
Other Services	476,300

Manufacturing Sector Employment- Total and Major Groups (1985)

Total:	426,100
Printing and Publishing	39,300
Apparel and Other Textile Products	24,300
Chemicals and Allied Products	23,400
Leather and Leather Products	15,700
Rubber & Misc. Plastic Products	900

Service Sector Employment- Total and Major Groups (1985)*

Total:	599,200
Banking	37,000
Insurance Carriers	27,200
Hotels & Other Lodging Places	24,500
Real Estate	20,900
Credit Agencies Other than Banks	13,100

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in MISSOURI

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$3,027
Canada	880

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	386
Canada	58

Major Commodity Trade With Canada

Exports to Canada ($ 000's, 1986):	$841,523**

Leading MISSOURI Exports to Canada:

Aircraft	$381,720
Motor Vehicle Engines and Parts, Motor Vehicle Parts	65,654
Chemical Products	41,478
Telecommunications and Related Equipment	24,428
Combine Reaper-Threshers	21,882
Aircraft Engines & Aircraft Parts	21,285
Organic Chemicals	16,203
Electric Generators and Motors	15,161
Various End Products	10,601
Miscellaneous Equipment & Tools	9,661

Imports from Canada ($ 000's, 1986):	$930,090

Leading MISSOURI Imports from Canada:

Motor Vehicle Engines and Parts, Motor Vehicle Parts	$532,508
Newsprint Paper	58,271
Softwood Lumber	47,196
Aircraft Engines & Aircraft Parts,	46,444
Navigation Equipment	18,946
Synthetic Rubber & Plastics Products	15,642
Organic Chemicals	15,399
Fertilizers & Fertilizer Materials	13,783
TV Radio Sets and Phonographs	9,681
Misc. Equipment & Tools	8,367

** It is likely that exports from the State of MISSOURI to Canada are underestimated. Approximately one out of every seven dollars worth of U.S. exports to Canada cannot be assigned to a state. Most of these exports are automotive products, which are among MISSOURI's leading exports to Canada.

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BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT
FOR MONTANA

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The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE MONTANA-CANADA TRADING RELATIONSHIP

In 1986, Canada and MONTANA traded over $600 million worth of commodities.

Trade liberalizing accords, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for MONTANA arise through the United States-Canada Free Trade Agreement's phaseout of Canada's tariffs, the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. The state's manufacturers will not experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- MONTANA exported $89 million worth of commodities to Canada in 1986.
    - Major exports included phosphate rock; motor vehicle engines, engine parts and other motor vehicle parts; chemicals; crude non-metallic minerals; live animals; plywood and wood building boards; lumber; paper and paperboard; and books and pamphlets.
- MONTANA imported $512 million worth of commodities from Canada in 1986.
    - Major imports included crude petroleum and petroleum products; lumber and softwood; fertilizers; natural gas; chemicals; precious metals; drilling, excavating, and mining machinery; newsprint paper; and trucks.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
    - On a national per capita basis, MONTANA'S 809,000 residents would be expected to account for $85 million of this trade. Given the state's geographic location on the Canadian border, however, it is possible that this figure is much higher.
    - MONTANA service industry establishments recorded over $1.1 billion in revenues in 1982.
    - Major service industry employers include business services, health services, hotels and other lodging places, personal services, and social services.

  - In 1986, 418,000 Canadian tourists spent $31 million in MONTANA.

- About one out of fourteen MONTANA workers in the manufacturing sector hold positions that are related to exports to other countries.
  - $300 million in MONTANA manufacturing shipments are related to exports (1983).
  - In the MONTANA manufacturing sector, 1,000 jobs are dependent on exports (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- The two leading American export prospects to Canada in 1988, according to the U.S. Foreign Commercial Service in that country, are among MONTANA'S top export items. 1986 sales to Canada of these products--various motor vehicle components and chemicals and chemical products--were $7.0 million and $10.5 million, respectively. About 800 MONTANANS are employed the industries that manufacture chemical products and transportation equipment.
  - MONTANA exporters of chemical products will become more price competitive as the Free Trade Agreement phases out the tariffs on all goods traded between the United States and Canada.
  - MONTANA auto component manufacturers will benefit from the phaseout of Canadian import restrictions on used motor vehicles from the United States.
  - MONTANA's auto sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.
  - After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.

- The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

- In 1986, MONTANA exported $2.5 million in books and pamphlets and another $2.9 million in paper and paperboard. Books are ranked among the top 15 export prospects to Canada in 1988. Over 3,000 workers make their living in either the paper and paperboard or the printing and publishing industries in MONTANA.

  - All remaining Canadian duties on books, paper and paperboard will be eliminated by January 1, 1993. This will enhance the opportunities of MONTANAN exporters of these products.

  - The FTA also eliminates the "Print in Canada" requirement that has limited taxpayer income expense deductions to the purchase of advertising space in publications typeset or published in Canada.

o With the expansion of government procurement opportunities through the FTA, MONTANA firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

o MONTANA imported $372 million in crude petroleum, petroleum and coal products, and natural gas from Canada in 1986. This represents over 72% of the state's imports from Canada and one-quarter of the state's energy expenditures.

- The Free Trade Agreement provides for free bilateral energy trade, ensuring MONTANA nondiscriminatory access to energy supplies. The FTA's energy provisions guarantee that Canada will not restrict exports, impose export taxes or establish export price requirements, subject to very limited national security and short supply exceptions.

o Investment by Canadian companies in MONTANA is $963 million. Employment generated by Canadian investments is estimated to be over 1,200.

  - The FTA encourages additional MONTANA investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both MONTANA and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

- MONTANA conducts millions of dollars worth of services trade with Canada each year. Over 77,000 MONTANANS work in the service, finance, insurance and real estate fields.

  - The FTA facilitates the entry of certain MONTANA business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.

  - The FTA enhances service trade opportunities for MONTANA businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

  - The FTA covers dozens of services in the agriculture and forestry, mining, construction, distributive trade, insurance and real estate, and commercial service sectors.

  - MONTANA firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.

  - Future licensing and certification requirements for MONTANA residents providing professional services (such as accountants and engineers) will be based primarily on competence and ability--not citizenship.

- In 1986, Canada supplied MONTANA with $18.5 million in fertilizer products and $4.3 million in newsprint paper from Canada.

  - Newsprint in rolls and fertilizer products currently enter the United States without tariff. The FTA ensures that this duty free status is continued, hence providing additional security to MONTANA publishers and to those on MONTANA's 24,000 farms who depend on these commodities to produce their goods.

- The Free Trade Agreement assures retransmission rights for American broadcasters. Specifically, Canada's copyright law will provide U.S. each copyright holder with a right of equitable and non-discriminatory remuneration for any retransmission to the public of the copyrighter's programs (where the original transmission of the programs are carried in distant signals intended for free, over-the-air reception by the general public).

- The FTA specifically continues in force the 1986 U.S.-Canada Memorandum of Understanding on Softwood Lumber and allows measures necessary to enforce it. This agreement concerning Canadian provincial pricing practices for stumpage resolved a subsidy case against imports of Canadian softwood lumber.

STATE STATISTICAL PROFILE: MONTANA

Population (July 1, 1987)	809,000
Area	147,046 square miles 380,848 square kilometers
State Personal Income ($ millions, 1986)	6,485

Nonagricultural Employees- Total and By Industry Groups (in 000s, October 1987)

Total:	279
Industry Groups:	
Mining	6
Construction	11
Manufacturing	22
Transportation and Public Utilities	20
Wholesale and Retail Trade	73
Finance, Insurance and Real Estate	13
Other Services	65
Government	70

Manufacturing Sector Employment- Total and Major Groups (1985)

Total:	21,100
Lumber and Wood Products	7,900
Printing and Publishing	2,600
Food and Kindred Products	2,500
Stone, Clay, and Glass Prods	1,000
Petroleum and Coal Products	800

Service Sector Employment- Total and Major Groups (1985)*

Total:	71,400
Health Services	20,600
Hotels and other Lodging	6,200
Social Services	5,700
Banking	5,200
Business Services	5,000

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in MONTANA

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):	
All countries	$1,870
Canada	963

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)	
All countries	195
Canada	80

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986): $88,733**

Leading MONTANA Exports to Canada:	
Phosphate Rock	$ 8,846
Motor Vehicle Engines and Parts	7,027
Chemicals (Inorganic and Organic)	5,771
Other Crude, Non-Metallic Minerals	5,543
Other Chemical Products	4,719
Live Animals	4,533
Plywood and Wood Building Boards	3,937
Paper and Paperboard	2,904
Lumber	2,682
Books and Pamphlets	2,475
Mining, Oil and Gas Machinery	4,942

Imports from Canada ($ 000s, 1986): $511,622

Leading MONTANA Imports from Canada:	
Crude Petroleum	$302,862
Petroleum and Coal Products	52,202
Lumber, Softwood	51,562
Fertilizer and Fertilizer Material	18,529
Natural Gas	16,875
Chemicals (Inorganic and Organic)	6,900
Precious Metals in Ores Conc., Scrap	6,892
Drilling, Excavating, Mining Mach.	4,967
Newsprint paper	4,259
Trucks, Truck Tractors and Chassis	3,013

** It is likely that exports from the State of MONTANA to Canada are underestimated. Approximately one out of every seven dollars worth of U.S. exports to Canada cannot be assigned to a state. Most of these exports are automotive products, which are among MONTANA's leading exports to Canada.

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT FOR NEBRASKA

Prepared by

The Office of Canada
International Trade Administration
U.S. Department of Commerce (Room 3033)
Washington, D.C. 20230
(202) 377-3101

March 7, 1988

The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE NEBRASKA-CANADA TRADING RELATIONSHIP

In 1986, Canada and NEBRASKA traded over $218 million worth of commodities. NEBRASKA exports 32% more to Canada than it imports from that country.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for NEBRASKA arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, NEBRASKA consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. NEBRASKA manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- NEBRASKA exported $124.1 million worth of commodities to Canada in 1986.
  - Major exports included agricultural machinery and equipment; motor vehicle engines, engine parts, and other motor vehicle parts; rubber and plastic products; chemical products; newspapers, magazines, and periodicals; meat, fresh, chilled or frozen; mechanical power transmission equipment; rubber fabricated materials; medicinal and pharmaceutical products; and various crude animal products.
- NEBRASKA imported $93.8 million worth of commodities from Canada in 1986.
  - Major imports included newsprint paper; wood pulp and similar pulp; live animals; softwood lumber; chemicals (organic and inorganic); paper for printing; fertilizers and fertilizer material; motor vehicle engines, engine parts and other motor vehicle parts; and agricultural machinery and parts.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
  - NEBRASKA service industry establishments recorded over $2.6 billion in revenues in 1982.

  - Major service industry employers include health, business, membership organizations, educational, and personal services.

  - In 1986, 34,300 Canadian tourists spent $2 million in NEBRASKA.

- Nearly one out of eleven NEBRASKANS working in the manufacturing sector hold jobs that are related to exports to other countries.

  - $1.2 billion of NEBRASKA manufacturing shipments are related to exports (1983).

  - In the NEBRASKA manufacturing sector, 8,000 positions are dependent on exports.

IMPACT OF THE FREE TRADE AGREEMENT

- One of the leading American export prospects to Canada in 1988, according to the U.S. Foreign Commercial Service in that country, is among NEBRASKA's top export items. 1986 sales to Canada of various motor vehicle components totalled $11.9 million. Nearly 5,000 NEBRASKANS are employed in the manufacture of transportation equipment.

  - NEBRASKA motor vehicle engine and parts producers stand to profit from the staged elimination of the Canadian restriction on the importation of used American motor vehicles.

  - NEBRASKA's auto sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.

  - After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.

  - The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

- With the expansion of government procurement opportunities through the FTA, NEBRASKA firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

- NEBRASKA's major exports to Canada during 1986 included $18.9 million in agricultural machinery and equipment and miscellaneous mechanical power transmission equipment. Over 19,000 NEBRASKANS are employed in the two industries that produce much of this equipment, the fabricated metal products and the machinery industries.

  - The Free Trade Agreement enhances the export opportunities of these NEBRASKA products in the Canadian market through the staged elimination of all tariffs by January 1, 1998.

- Investment by Canadian companies in NEBRASKA is $72 million. Employment generated by Canadian investments is close to 750.

  - The FTA encourages additional NEBRASKA investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both NEBRASKA and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

- NEBRASKA conducts millions of dollars worth of services trade with Canada each year. Over 197,000 NEBRASKANS work in the service, finance, insurance and real estate fields.

  - The FTA facilitates the entry of certain NEBRASKA business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.

  - The FTA enhances service trade opportunities for NEBRASKA businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.
  - The FTA covers dozens of services in the agriculture and forestry; mining; construction; distributive trade; insurance and real estate; and commercial service sectors.
  - NEBRASKA firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.
  - Future licensing and certification requirements for NEBRASKA residents providing professional services such as accountants and engineers will be based primarily on competence and ability--not citizenship.

- NEBRASKA exported over $9.4 million in meat and crude animal products to Canada in 1986.
  - NEBRASKA exporters of animal products will be assisted by FTA provisions that exempt them from Canada's meat import laws (subject to certain conditions).
- In 1986, NEBRASKA imported over $2.8 million worth of fertilizer and fertilizer material.
  - The FTA ensures that these products continue to enter the United States duty free in the years ahead. This will provide some security to those working on NEBRASKA's 57,000 farms, many of which depend on fertilizer to grow agricultural commodities.
- NEBRASKA exported $5.7 million worth of newspapers and periodicals to Canada in 1986. Periodicals are ranked among the top 20 U.S. export prospects to Canada during 1988. Over 8,700 people are employed in NEBRASKA's printing and publishing industry, making it one of the state's largest manufacturing industries.
  - The Free Trade Agreement makes this industry more competitive in the Canadian market by eliminating the "Print in Canada" requirement which has limited taxpayer expense deductions for advertising to costs of purchasing space in publications typeset or published in Canada.

STATE STATISTICAL PROFILE: NEBRASKA

Population (July 1, 1987)	1,594,000
Area	77,355 square miles 200,350 square kilometers

Gross State Product ($ millions, 1985)

Total:	$25,859 24,085 (1984)
By Sector (1984):	
Private	18,259
Government	2,965
Farm	2,861

Nonagricultural Employees- Total and By Industry Groups (in 000s, October 1987)

Total:	676
Industry Groups:	
Mining	2
Construction	24
Manufacturing	86
Transportation and Public Utilities	46
Wholesale and Retail Trade	176
Finance, Insurance and Real Estate	48
Other Services	150
Government	144

Manufacturing Sector Employment- Total and Major Groups (1985)

Total:	91,900
Food and Kindred Products	23,200
Machinery, Except Electrical	12,600
Printing and Publishing	8,800
Electric & Electronic Equip.	8,300
Fabricated Metal Products	6,500

Service Sector Employment- Total and Major Groups (1985)*

Total:	180,000
Health Services	46,000
Business Services	22,700
Insurance Carriers	18,400
Membership Organizations	11,600
Banking	11,200

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in NEBRASKA

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$ 443
Canada	72

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	204
Canada	51

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986): $124,131**

Leading NEBRASKA Exports to Canada:

Other Agri. Machinery & Equipment	$13,846
Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	11,924
Rubber and Plastic Parts	6,005
Various Chemical Products	5,799
Newspapers, Magazines, & Period.	5,741
Meat, Fresh, Chilled or Frozen	5,423
Various Mechanical Power Transmission Equipment	5,013
Rubber Fabricated Materials	4,850
Medicinal & Pharm. Products in Dosage	4,102
Various Crude Animal Products	4,038

Imports from Canada ($ 000s, 1986): $93,757

Leading NEBRASKA Imports from Canada:

Newsprint Paper	19,889
Wood Pulp and Similar Pulp	11,754
Live Animals	7,819
Lumber, Softwood	4,746
Chemicals (Organic and Inorganic)	3,737
Paper for Printing	3,144
Fertilizers & Fertilizer Material	2,849
Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	2,582
Other Paper	2,397
Agricultural Machinery and Equipment	2,393

** It is likely that exports from the State of NEBRASKA to Canada are underestimated. Approximately one out of every seven dollars worth of U.S. exports to Canada cannot be assigned to a state. Most of these exports are automotive products, which are among NEBRASKA's leading exports to Canada.

Sources: Statistics Canada, U.S. Department of Commerce, U.S. Department of Labor, and the NEBRASKA Department of Economic Development.

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BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT
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THE NEVADA-CANADA TRADING RELATIONSHIP

In 1986, Canada and NEVADA traded over $124 million worth of commodities. NEVADA exports 81% more to Canada than it imports from that country.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for NEVADA arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, NEVADA consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. NEVADA manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- NEVADA exported $80.5 million worth of commodities to Canada in 1986.
  - Major exports included precious metals; books and pamphlets; telephone and telegraph equipment; newspapers, magazines and periodicals; railway and rolling stock; measuring and laboratory equipment; medical, opthalmic and orthopedic supplies; motor vehicle engines, engine parts and other motor vehicle parts; natural abrasives; and drilling machinery and drill bits.
- NEVADA imported $44.5 million worth of commodities from Canada in 1986.
  - Major imports included newsprint paper; wood and similar pulp; drilling, excavating and mining machinery; miscellaneous equipment and tools; telecommunications and related equipment; motor vehicles; miscellaneous transport equipment; miscellaneous special industrial machinery; metal fabricated basic products; and motor vehicle engines, engine parts and other motor vehicle parts.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
  - NEVADA service industry establishments recorded over $6.2 billion in revenues in 1982.

- Major service industry employers include health, educational, social, hotel and lodging place, personal, and business services.

- In 1986, 424,200 Canadian tourists spent $116 million in NEVADA.

o About one in nine jobs in NEVADA's manufacturing sector are related to exports to other countries.

- Export-related manufacturers' shipments totalled approximately $200 million in 1983.

- NEVADA maintains 2,000 manufacturing positions which are export-related (1983).

IMPACT OF THE FREE TRADE AGREEMENT

o Nearly three-fifths of NEVADA's exports to Canada are precious metals (including alloys). In 1986, the state exported $47.3 million of these materials to Canada. Over 3,200 NEVADANS are employed in the metal mining industry.

- The Free Trade Agreement enhances export sales opportunities for NEVADA mining industries through the phaseout of duties on precious stones and metals by January 1, 1993.

o In 1986, NEVADA exported $2.4 million in telephone and telegraph equipment and $6.1 million in newspapers, magazines, periodicals and books. Telecommunications equipment, books and periodicals are ranked among the top 15 U.S. export prospects for 1988. Over 5,000 NEVADANS are employed in the printing and publishing and the electric and electronic industries that produce many of these products.

- NEVADA's opportunities will expand in the fast-growing telecommunications sector with the gradual elimination of duties on all electric and electronic devices. In addition, FTA provisions on enhanced and computer services ensure further development of an open and competitive Canadian market, including access to and the use of the basic telecommunications network.

- Publishers gain through the FTA's ending of the "Print in Canada" requirement. This measure has limited taxpayer expense deductions from income for the purchase of advertising space to those newspapers and periodicals printed or typeset in Canada.

- With the expansion of government procurement opportunities through the FTA, NEVADA firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

- During 1986, NEVADA imported $1.9 million in Canadian newsprint.

  - At present, Canadian newsprint in rolls enters the United States without a tariff. The Free Trade Agreement reaffirms the duty free status of this commodity for the years ahead. This is helpful to publishers of NEVADA's newspapers, including 9 dailies.

- Investment by Canadian companies in NEVADA is $373 million. Employment generated by Canadian investments is estimated to be over 1,700.

  - The FTA encourages additional NEVADA investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both NEVADA and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

- NEVADA conducts millions of dollars worth of services trade with Canada each year. Over 248,000 NEVADA workers are in the service, finance, insurance and real estate fields.

  - The FTA facilitates the entry of certain NEVADA business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.

  - The FTA enhances service trade opportunities for NEVADA businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

  - The FTA covers a dozens of services in the agriculture and forestry, mining, construction, distributive trade, insurance and real estate, and commercial service sectors.

  - NEVADA firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.

- Future licensing and certification requirements for NEVADA residents providing professional services (such as accountants and engineers) will be based primarily on competence and ability--not citizenship.

STATE STATISTICAL PROFILE: NEVADA

Population (July 1, 1987)	1,007,000
Area	110,561 square miles 286,352 square kilometers

State Personal Income ($ millions, 1986)

Total:	$14,870

Nonagricultural Employees- Total and By Industry Groups (in 000s, October 1987)

Total:	507
Industry Groups:	
Mining	8
Construction	33
Manufacturing	24
Transportation and Public Utilities	28
Wholesale and Retail Trade	102
Finance, Insurance and Real Estate	25
Other Services	224
Government	66

Manufacturing Sector Employment- Total and Major Groups (1985)

Total:	22,600
Printing and Publishing	3,300
Machinery (Except Electrical)	2,800
Miscellaneous Manufacturing	2,100
Instruments and Rel. Products	2,000
Stone, Clay and Glass	1,800

Service Sector Employment- Total and Major Groups (in 000s, 1985)*

Total:	210
Hotels and Other Lodging Places	103
Amusement and Recreation Services	11
Business Services	17
Health Services	16
Real Estate	6

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in NEVADA

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$1,083
Canada	373

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	193
Canada	56

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986):	$80,489

Leading NEVADA Exports to Canada:

Precious Metals, Including Alloys	$47,335
Books and Pamphlets	4,215
Telephone and Telegraph Equip.	2,393
Newspapers, Magazines and Periodicals	1,900
Railway and Rolling Stock	1,711
Misc. Measuring, Laboratory, Equipment, Etc.	1,430
Medical, Opthalmic, Orthopedic Supplies	1,154
Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	1,000
Natural Abrasives	948
Drilling Machinery and Drill Bits	828

Imports from Canada ($ 000s, 1986):	$44,450

Leading NEVADA Imports from Canada:

Newsprint Paper	10,895
Wood and Similar Pulp	7,473
Drilling, Excavating, Mining Mach.	2,861
Various Equipment and Tools	2,580
Telecommunications and Related Equip.	1,980
Motor Vehicles	1,427
Various Transportation Equipment	1,354
Special Industrial Machinery	1,172
Metal Fabricated Basic Products	901
Motor Vehicle Engines, Engine Parts and Other Parts	796

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

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BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT
FOR NEW YORK

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THE NEW YORK-CANADA TRADING RELATIONSHIP

In 1986, Canada and NEW YORK traded $16.7 billion worth of commodities. NEW YORK conducts more trade with Canada than does Japan, and is second among American states in trade with Canada.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for NEW YORK arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, NEW YORK consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. NEW YORK manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- NEW YORK exported $5.6 billion worth of commodities to Canada in 1986.*
  - Major exports included precious metals; motor vehicle engine parts and other motor vehicle parts; various metals in ores, concentrates and scrap; electronic tubes and semiconductors; electronic computers; and miscellaneous photographic goods.
- NEW YORK imported $11.1 billion worth of commodities from Canada in 1986.
  - Major imports included passenger autos and chassis; precious metals; trucks, truck tractors, and chassis; newsprint paper; motor vehicle engine parts and other motor vehicle parts; electricity, and natural gas.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
  - On a national per capita basis, NEW YORK's 17.8 million residents would be expected to account for $1.9 billion of this trade. However, given the importance of the state's service sector, it is possible that the NEW YORK services trade total with Canada is much higher than this figure.
  - NEW YORK service industry establishments recorded over $52 billion in revenues in 1982.

  - Major service industry employers include health, business, education, social, legal, and personal services.

  - In 1986, over 2 million Canadian tourists spent $220 million in NEW YORK.

- One in ten NEW YORKERS working in the manufacturing sector hold jobs related to exports.

  - Export-related manufacturers' shipments totalled $13.4 billion in 1983.

  - In NEW YORK, 138,000 manufacturing sector jobs are dependent on state exports to other countries.

IMPACT OF THE FREE TRADE AGREEMENT

- The two leading American export prospects to Canada in 1988, according to the U.S. Foreign Commercial Service in that country, are among NEW YORK's top export items. Sales to Canada of these products--computers and telecommunications equipment--topped $319 million in 1986. Over 368,000 NEW YORKERS are employed in the industries that produce many of these products (the machinery; electric and electronic equipment; and instruments and related products industries).

  - The 3.9% Canadian duty on computers will end on January 1, 1989. In addition, the FTA provisions on enhanced telecommunications and computer services ensure further development of an open and competitive Canadian market including access to and the use of the basic telecommunications network. These changes will improve the competitiveness of NEW YORK firms in this booming export market.

- In 1986, NEW YORK exported to Canada $742 million in automobile engines, engine parts and other motor vehicle parts. Auto parts and accessories are rated among the very best export prospects to Canada in 1988. Over 62,000 New Yorkers are involved in the manufacture of transportation equipment.

  - NEW YORK auto parts producers will benefit from the phaseout of Canadian import restrictions on used motor vehicles from the United States, and the elimination of duties on replacement auto parts by 1993.

  - NEW YORK's auto sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.

- After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.

- The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

o NEW YORK imported over $1 billion worth of Canadian energy products in 1986 (crude petroleum, natural gas, electricity and petroleum and coal products) in 1986. This represents about four percent of the state's energy expenditures.

  - The Free Trade Agreement provides for free bilateral energy trade, ensuring NEW YORK of nondiscriminatory access to energy supplies. The FTA's energy provisions guarantee that Canada will not restrict exports, impose export taxes, or establish export price requirements, subject to very limited national security and short supply exceptions.

o With the expansion of government procurement opportunities through the FTA, NEW YORK firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

o Investment by Canadian companies in NEW YORK equaled $3.3 billion in 1985. Employment generated by Canadian investments is estimated at 31,300.

- The FTA encourages additional NEW YORK investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both NEW YORK and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

o NEW YORK conducts hundreds of millions of dollars worth of services trade with Canada each year. Over 2.8 million NEW YORKERS work in the service, finance, insurance and real estate fields.

- The FTA facilitates the entry of certain NEW YORK business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise without the customs delays that now exist.

- The FTA enhances service trade opportunities for NEW YORK businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

- The FTA covers a wide range of service sectors. These include health care facilities management, hotel and motel management, training, real estate agency, computer, advertising and promotional, and numerous other commercial services.

- NEW YORK firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.

- Future licensing and certification requirements for NEW YORK residents providing services (such as accountants and engineers) will be based primarily on competence and ability--not citizenship.

- The FTA ensures that open markets for tourists and tourism service providers will continue for this important NEW YORK industry. When the NEW YORK tourism industry provides services to a Canadian tourist, that is an "invisible" export.

o The Free Trade Agreement assures retransmission rights for American broadcasters. Specifically, Canada's copyright law will provide each U.S. copyright holder with a right of equitable and non-discriminatory remuneration for any retransmission to the public of the copyrighter's programs where the original transmission of the programs are carried in distant signals intended for free, over-the-air reception by the general public.

- NEW YORK imported over $435 million in newsprint paper in 1986.
  - The FTA ensures that newsprint paper which enters the United States without tariff will continue to receive duty free status.
- NEW YORK exported over half-a-million dollars worth of miscellaneous beverages to Canada in 1986, including wine.
  - NEW YORK wineries will profit from the phase out of tariffs on all alcoholic beverages, and the staged elimination of Canada's discriminatory pricing system for wines. NEW YORK producers will also gain increased access to the distribution and marketing network in Canada as a result of FTA's provisions.

STATE STATISTICAL PROFILE: NEW YORK

Population (July 1, 1987)	17,825,000
Area	49,108 square miles 127,190 square kilometers

State Personal Income ($ millions, 1986)

Total:	$304,095

Nonagricultural Employees- Total and By Industry Groups (in 000s, October 1987)

Total:	8,216

Industry Groups:

Mining	6
Construction	366
Manufacturing	1,225
Transportation and Public Utilities	413
Wholesale and Retail Trade	1,734
Finance, Insurance and Real Estate	793
Other Services	2,254
Government	1,425

Manufacturing Sector Employment- Total and Major Groups (in 000s, 1985)

Total:	1,353
Electric and Electronic Equipment	170
Printing and Publishing	167
Apparel/Other Textile Products	142
Administrative and Auxiliary	124
Instruments/Related Products	98

Service Sector Employment- Total and Major Groups (in 000s, 1985)**

Total:	2,803
Health Services	567
Business Services	469
Banking	226
Educational Services	215
Social Services	154

**Includes Finance, Insurance and Real Estate Industries

Foreign Investment in NEW YORK

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$15,253
Canada	3,337

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	1,738
Canada	182

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986): $5,553,896*

Leading NEW YORK Exports to Canada:

Precious Metals (Including Alloys)	$775,997
Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	741,808
Misc. Metals in Ores, Concentrate and Scrap	393,292
Electronic Tubes and Semiconductors	390,894
Electronic Computers	228,777
Various Photographic Goods	167,484
Aluminum (Including Alloys)	162,553
Railway and Street Railway Rolling Stock	132,112
Other End Products, Inedible	101,925
Misc. Telecommunications and Related Equipment	90,678

Imports from Canada ($ 000s, 1986): $11,149,073

Leading NEW YORK Imports from Canada:

Passenger Autos and Chassis	$3,410,177
Precious Metals (Including Alloys)	1,540,770
Trucks, Truck Tractors and Chassis	454,115
Newsprint Paper	435,628
Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	391,085
Electricity	374,867
Aluminum (Including Alloys)	336,988
Misc. Telecommunications and Related Equipment	263,534
Crude Petroleum	248,050
Natural Gas	226,460

* It is likely that exports from the State of NEW YORK to Canada are underestimated. Approximately one out of every seven dollars worth of U.S. exports to Canada cannot be assigned to a state. Most of these exports are automotive products, which are among NEW YORK's leading exports to Canada.

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT FOR NEW HAMPSHIRE

Prepared by

The Office of Canada
International Trade Administration
U.S. Department of Commerce (Room 3033)
Washington, D.C. 20230
(202) 377-3101

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The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE NEW HAMPSHIRE-CANADA TRADING RELATIONSHIP

In 1986, Canada and NEW HAMPSHIRE traded $497 million worth of commodities.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for NEW HAMPSHIRE arise through the Free Trade Agreement's phaseout of Canadian tariffs, the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, NEW HAMPSHIRE's consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competitive, rationalized production, and more efficient business operations. NEW HAMPSHIRE's manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- NEW HAMPSHIRE exported $186 million worth of commodities to Canada in 1986.
  - Major exports included electronic computers; motor vehicles (engines and parts); printing presses; electrical measuring equipment; lumber; organic and inorganic chemicals; and aircraft engines and parts.
- NEW HAMPSHIRE imported $311 million worth of commodities from Canada in 1986.
  - Major imports included softwood lumber; fish products; newsprint paper; plate, sheet and strip steel; prefabricated buildings and structures; drilling, excavating and mining machinery and petroleum and coal products.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
  - On a national per capita basis, NEW HAMPSHIRE's one million residents could be expected to account for $10.9 million of this trade. Given the state's geographic proximity to Canada, however, it is possible that this number is really much higher.
  - Over 6,000 NEW HAMPSHIRE service establishments recorded $1.5 billion in revenues in 1982.
  - Major service industry employers include health services, education services, and business services.

  - In 1986, 228,400 Canadian tourists spent $16 million in NEW HAMPSHIRE.

- Approximately 12,000 NEW HAMPSHIRE jobs are maintained by export-related manufacturing.
  - Export-related manufacturers' shipments totalled $800 million in 1983.
  - Over 11% of NEW HAMPSHIRE's manufacturers' shipments are export-related (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- With the expansion of government procurement opportunities through the FTA, NEW HAMPSHIRE firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

- NEW HAMPSHIRE's three leading exports to Canada are motor vehicle engines and parts; printing presses and electrical measuring instruments. Together, these products account for $40 million of the state's exports to Canada. Nearly 50,000 persons are employed in NEW HAMPSHIRE's electric and electronic equipment, transportation equipment and machinery manufacturing industries.
  - The Free Trade Agreement will allow NEW HAMPSHIRE to increase its exports of these products by phasing out tariffs that now restrict the entry of such goods into Canada.
  - NEW HAMPSHIRE's automobile engine and parts producers stand to gain from the staged elimination of the Canadian restriction on the importation of used American motor vehicles.
  - NEW HAMPSHIRE's auto sector also will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.
  - After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to

the production or exportation of Canadian automotive products.

- The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

o Another one of NEW HAMPSHIRE's leading exports to Canada is electronic computers ($28 million in 1986). Over 20,000 persons are employed in the state in the production of electric and electronic equipment production.

  - The FTA assures increased market access for U.S. computers exported to Canada, through the elimination of the 3.9% tariff on computers immediately upon entry into force of the FTA.

o One of NEW HAMPSHIRE's leading imports from Canada is plate, sheet and strip steel. In 1986, the state imported $11 million worth of this commodity.

  - Through the FTA, products such as plate, sheet and strip steel will enter the U.S. without duty in the years ahead. These provisions provide some security to those in the manufacturing industry in NEW HAMPSHIRE who depend on Canadian steel products, and will lower production costs to these manufacturers thus increasing their competitive capability in third-country markets.

o The Chemical industry in NEW HAMPSHIRE maintains nearly 800 jobs in NEW HAMPSHIRE. In 1986, NEW HAMPSHIRE exported close to $7 million of organic and inorganic chemicals to Canada. The U.S. Foreign Commercial Service ranks industrial organic and inorganic chemicals among the top 20 American export prospects to Canada in 1988.

  - The FTA supports NEW HAMPSHIRE's export of such products through the phaseout of Canadian duties.

o Investment by Canadian companies in NEW HAMPSHIRE is $605 million. Employment generated by Canadian investments is estimated over 3,600.

  - The FTA encourages additional NEW HAMPSHIRE investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both NEW HAMPSHIRE and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

- NEW HAMPSHIRE conducts millions of dollars worth of services trade with Canada each year. Over 114,000 employees work in the service, finance, insurance and real estate fields.

  - The FTA facilitates the entry of certain NEW HAMPSHIRE business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise without the customs delays that now exist.

  - The FTA enhances service trade opportunities for NEW HAMPSHIRE businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

  - The FTA covers a wide range of service sectors, including construction, metal mining, hotel reservation, credit bureau, real estate, oil and gas field, tourism and management services.

  - NEW HAMPSHIRE firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.

  - Future licensing and certification requirements for NEW HAMPSHIRE residents providing professional services (such as accountants and engineers) will be based primarily on competence and ability--not citizenship.

- The FTA specifically continues in force the 1986 U.S.-Canada Memorandum of Understanding on Softwood Lumber and allows measures necessary to enforce it. This agreement concerning Canadian provincial pricing practices for stumpage resolved a subsidy case against imports of Canadian softwood lumber.

- In 1986, NEW HAMPSHIRE imported $6.6 million worth of Canadian petroleum and coal products.
  - The Free Trade Agreement provides for free bilateral energy trade, ensuring NEW HAMPSHIRE non-discriminatory access to energy supplies. The FTA's energy provisions guarantee that Canada will not restrict exports, impose export taxes or establish export price requirements, subject to very limited national security and short supply exceptions.

STATE STATISTICAL PROFILE: NEW HAMPSHIRE

Population (July 1, 1987)	1,057,000
Area	9,279 square miles 24,032 square kilometers

Gross State Product ($ millions, 1985)

Total:	$17,371

Nonfarm Employees- Total and Selected Industry Groups (1985)

Total:	390,400
Selected Industry Groups:	
Agricultural Services, Forestry and Fish	1,300
Mining	300
Contract Construction	22,900
Manufacturing	120,000
Transportation and Public Utilities	15,600
Wholesale Trade	24,500
Retail Trade	85,800
Finance, Insurance and Real Estate	25,000
Other Services	89,200

Manufacturing Sector Employment- Total and Major Groups (1985)

Total:	120,000
Machinery (Except Electrical)	26,400
Electric & Electronic Equip.	20,700
Rubber & Misc. Plastic Prods.	9,300
Instruments & Related Products	7,600
Printing and Publishing	7,100

Service Sector Employment- Total and Major Groups (1985)*

Total:	114,200
Health Services	26,800
Educational Services	11,300
Business Services	11,200
Insurance Carriers	7,600
Banking	7,300

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in NEW HAMPSHIRE

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$605
Canada	155

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	17[illegible]
Canada	24[illegible]

Major Commodity Trade With Canada

Exports to Canada ($ 000's, 1986): $186,268**

Leading NEW HAMPSHIRE Exports to Canada:

Electronic Computers	$28,207
Motor Vehicles, Engines and Parts	19,768
Printing Presses	11,617
Electrical Prop. Measuring Instru.	8,595
Lumber	7,889
Crude Wood Materials	7,624
Organic & Inorganic Chemicals	6,954
Telecommunications & Related Equip.	5,620
Special Industry Machinery	3,870
Aircraft Engines and Parts	3,749

Imports from Canada ($ 000's, 1986): $310,899

Leading NEW HAMPSHIRE Imports from Canada:

Softwood Lumber	$54,011
Fish Products	50,541
Wood and Similar Pulp	20,081
Misc. Non-Metal Mineral Basic Prods.	13,455
Newsprint Paper	11,941
Plate, Sheet & Strip Steel	11,006
Prefab. Bldgs. & Structures	9,390
Misc. Telecom. & Related Equip.	9,164
Drilling, Excavating & Mining Mach.	7,244
Petroleum & Coal Products	6,637

** It is likely that exports from the State of NEW HAMPSHIRE to Canada are underestimated. Approximately one out of every seven dollars worth of U.S. exports to Canada cannot be assigned to a state. Most of these exports are automotive products, which are among NEW HAMPSHIRE's leading exports to Canada.

Sources: Statistics Canada, U.S. Department of Commerce, U.S. Department of Labor and the Federal Reserve Bank of Boston.

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT FOR NEW JERSEY

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THE NEW JERSEY-CANADA TRADING RELATIONSHIP

In 1986, Canada and NEW JERSEY traded $2.8 billion worth of commodities.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for NEW JERSEY arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, NEW JERSEY consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. NEW JERSEY manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- NEW JERSEY exported $1.3 billion worth of commodities to Canada in 1986.
    - Major exports included rubber and plastic products; organic and inorganic chemicals; electronic computers; medical and related supplies; motor vehicle engines, engine parts and other motor vehicle parts; and books and pamphlets.
- NEW JERSEY imported $1.5 billion worth of commodities from Canada in 1986.
    - Major imports included newsprint paper; precious metals; softwood lumber; motor vehicle engines, engine parts and other motor vehicle parts; office machines and equipment; and inorganic and organic chemicals.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
    - On a national per capita basis, NEW JERSEY's 7.6 million residents could be expected to account for $77.2 million of this trade.
    - Over 49,000 NEW JERSEY service establishments recorded $17.7 billion in revenues in 1982.
    - Major service industry employers include health services, hotels and other lodging places, and business services.

  - In 1986, over 330,000 Canadian tourists spent $59 million in NEW JERSEY.

- Approximately 73,000 NEW JERSEY jobs are maintained by export-related manufacturing.
  - Export-related manufacturers' shipments totalled $6.8 billion in 1983.
  - Nearly 9% of NEW JERSEY's manufacturers' shipments are export-related (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- With the expansion of government procurement opportunities through the FTA, NEW JERSEY firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

- Among NEW JERSEY's leading exports to Canada are rubber and plastic products; organic and inorganic chemicals; electronic computers; medical and related supplies; motor vehicle engines, engine parts and other motor vehicle; and books and pamphlets. Over 123,000 persons are employed in NEW JERSEY's chemical and rubber and plastic manufacturing industries alone.
  - The Free Trade Agreement will allow NEW JERSEY to increase its exports of these products by the phasing out of tariffs and certain nontariff barriers that now restrict the entry of such goods into Canada.

- One of NEW JERSEY's leading exports to Canada is organic and inorganic chemicals ($76 million in 1986). Over 85,000 are employed in the state in the chemical industry.
  - The FTA supports NEW JERSEY's exports of such products through the phaseout of Canadian duties which are particularly effective in limiting imports of generic products such as chemicals. The U.S. Foreign Commercial Service in Canada rates both industrial organic and inorganic chemicals as among the 20 best export prospects for U.S. firms.

- Another of NEW JERSEY's major exports to Canada telecommunications and related equipment ($30 million in 1986).
  - For those NEW JERSEY manufacturers who produce telecommunication equipment, the FTA will eliminate tariffs, which currently ranges up to 17.5%, either immediately or over a five-year period.

- Investment by Canadian companies in NEW JERSEY is $1.6 billion. Employment generated by Canadian investments is over 12,000.
  - The FTA encourages additional NEW JERSEY investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both NEW JERSEY and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.
- NEW JERSEY conducts millions of dollars worth of services trade with Canada each year. Over 961,000 employees work in the service, finance, insurance and real estate fields.
  - The FTA facilitates the entry of certain NEW JERSEY business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise without the customs delays that now exist.
  - The FTA enhances service trade opportunities for NEW JERSEY businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.
  - The FTA covers a wide range of service sectors, including construction, metal mining, hotel reservation, credit bureau, real estate, oil and gas field, tourism and management services.
  - The FTA ensures that open markets for tourists and tourism service providers will continue for this important NEW JERSEY industry. When the NEW JERSEY tourism industry provides services to a Canadian tourist, that is an "invisible export."
  - NEW JERSEY firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.
  - Future licensing and certification requirements for NEW JERSEY residents providing professional services such as accountants and engineers will be based primarily on competence and ability--not citizenship.

STATE STATISTICAL PROFILE: NEW JERSEY

Population (July 1, 1987)	7,672,000
Area	7,787 square miles 20,169 square kilometers

State Personal Income (in millions, 1986)

Total:	$141,919

Nonfarm Employees- Total and Selected Industry Groups (1985)

Total:	2,886,200
Selected Industry Groups:	
Agricultural Services, Forestry and Fish	10,200
Mining	3,300
Contract Construction	133,000
Manufacturing	740,100
Transportation and Public Utilities	206,400
Wholesale Trade	260,300
Retail Trade	545,800
Finance, Insurance and Real Estate	197,500
Other Services	763,800

Manufacturing Sector Employment- Total and Major Groups (1985)

Total:	740,100
Chemicals & Allied Products	85,200
Electric & Electronic Prod.	80,800
Printing and Publishing	59,800
Machinery, except Electrical	56,100
Fabricated Metal Products	52,700

Service Sector Employment- Total and Major Groups (1985)*

Total:	961,300
Health Services	211,100
Business Services	193,400
Hotels & Other Lodging Places	57,700
Insurance carriers	47,600
Banking	47,100

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in NEW JERSEY

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$9,328
Canada	1,585

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	905
Canada	68

Major Commodity Trade With Canada

Exports to Canada ($ 000's, 1986): $1,315,742

Leading NEW JERSEY Exports to Canada:

Rubber & Plastic Products	$ 81,672
Organic and Inorganic Chemicals	76,330
Electronic Computers	66,427
Misc. Chemical Products	53,607
Medical, Opthalmic, and Ortho. Supplies	53,045
Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	51,502
Books and Pamphlets	49,436
Telecommunications & Related Eq.	30,411
Paper and Paperboard	29,909
Newspapers, Magazines & Periodicals	29,003

Imports from Canada ($ 000's, 1986): $1,480,239

Leading NEW JERSEY Imports from Canada:

Newsprint Paper	$ 199,059
Precious Metals, Inc. Alloys	128,354
Softwood Lumber	100,546
Misc. Equipment and Tools	64,289
Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	45,256
Office Machines & Equipment	43,408
Organic and Inorganic Chemicals	40,562
Copper and Alloys	40,385
Rubber and Plastic Products	39,560
Petroleum and Coal Products	37,254

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

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BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT
FOR NEW MEXICO

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The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE NEW MEXICO-CANADA TRADING RELATIONSHIP

In 1986, Canada and NEW MEXICO traded over $45.9 million worth of commodities.

Trade liberalizing accords, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for NEW MEXICO arise through the Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to Canadian markets.

Through the FTA, NEW MEXICO's consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. NEW MEXICO's manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- NEW MEXICO exported $12 million worth of commodities to Canada in 1986.
    - Major exports included various fresh vegetables; natural abrasives; crude, non-metallic minerals; plywood and wood building boards; engines and turb.; mining, oil, and gas machinery; aircraft, complete with engines; aircraft engines and parts; electric lighting distributed equipment; miscellaneous measuring and measuring control instruments; and measuring and lab equipment.
- NEW MEXICO imported $34 million worth of commodities from Canada in 1986.
    - Major imports included newsprint paper; general purpose industrial machines; drilling, excavating, mining machinery; construction machinery and equipment; misc. motor vehicles; motor vehicle engines and parts; and telecommunications equipment.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
    - On a national per capita basis, NEW MEXICO's 1.5 million residents could be expected to account for $15.6 million of this trade.
    - NEW MEXICO service industry establishments recorded over $2.7 billion in revenues in 1982.

- Major service industry employers include business services, health services, hotels and other lodging places, personal services, and auto repair, services and garages.
- In 1986, 33,900 Canadian tourists spent $4 million in NEW MEXICO.

o About one out of twenty New Mexicans working in the manufacturing sector hold export-related positions.

- $300 million in New Mexico manufacturing shipments are related to exports (1983).
- In the New Mexico manufacturing sector, 2,000 positions are dependent on exports (1983).

IMPACT OF THE FREE TRADE AGREEMENT

o With the expansion of government procurement opportunities through the FTA, NEW MEXICO firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

o NEW MEXICO imported over $2 million in drilling, excavating, mining machinery in 1986.

- Through the FTA, most drilling, excavating, mining machinery will be free of tariffs by 1993. This should be of particular benefit to the 22,000 NEW MEXICANS employed in the mining industry.

o Investment by Canadian companies in NEW MEXICO is $400 million. Employment generated by Canadian investments is estimated to be over 700.

- The FTA encourages additional NEW MEXICO investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both NEW MEXICO and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

o NEW MEXICO conducts millions of dollars worth of services trade with Canada each year. Over 149,700 NEW MEXICANS work in the service, finance, insurance and real estate fields.

- The FTA facilitates the entry of certain NEW MEXICAN business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.

- The FTA enhances service trade opportunities for NEW MEXICAN businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

- The FTA covers dozens of services in the agriculture and forestry, mining, construction, distributive trade, insurance and real estate, and commercial service sectors.

- NEW MEXICO firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.

- Future professional licensing and certification requirements for NEW MEXICO residents providing professional services such as accountants and engineers will be based primarily on competence and ability--not citizenship.

o In 1986, NEW MEXICO exported to Canada over $1 million in aircraft, complete with engines and over $700 thousand in measuring and laboratory equipment. These commodities are among the top export prospects to Canada in 1988. Over 4,000 NEW MEXICANS are employed in the industries which manufacture transportation equipment and instruments and related products.

  - NEW MEXICO's economic opportunities should expand in these fast-growing sectors with the gradual phaseout of duties on all of these products by January 1, 1998. In addition, the Free Trade Agreement eliminates various nontariff barriers such as the Canadian restriction on the importation of used American aircraft.

STATE STATISTICAL PROFILE: NEW MEXICO

Population (July 1, 1987)	1,500,000
Area	121,593 square miles 314,925 square kilometers
State Personal Income ($ millions, 1986)	$16,894

Nonagricultural Employees- Total and By Industry Groups (in 000s, October 1987)

Total:	541
Industry Groups:	
Mining	16
Construction	35
Manufacturing	40
Transportation and Public Utilities	29
Wholesale and Retail Trade	131
Finance, Insurance and Real Estate	27
Other Services	122
Government	140

Manufacturing Sector Employment- Total and Major Groups (1985)

Total:	34,000
Electric and Electronic Eq.	5,900
Printing and Publishing	3,900
Food and Kindred Products	3,500
Transportation Equipment	2,900
Machinery, Except Electrical	2,800

Service Sector Employment- Total and Major Groups (1985)*

Total:	127,600
Business Services	23,200
Hotels and other Lodging	9,200
Banking	8,500
Real Estate	5,300
Personal Services	5,300

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in NEW MEXICO

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$1,876
Canada	400

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	214
Canada	41

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986):	$12,236

Leading NEW MEXICO Exports to Canada:

Fresh Vegetables	$1,280
Aircraft, Complete with Engines	1,053
Measuring, Lab Equipment	694
Electric Lighting Distrib. Equip.	657
Crude, Non-Metallic Minerals	527
Engines and Turb., General Purpose	518
Miscellaneous measuring and measuring Control Instruments	475
Aircraft Engines and Parts	385
Mining, Oil, and Geo. Machinery	375
Natural Abrasives	369
Plywood and Wood Building Boards	365

Imports from Canada ($ 000s, 1986):	$33,675

Leading NEW MEXICO Imports from Canada:

Telecom. and Related Eq.	$12,403
Newsprint paper	2,394
Drilling, Excavating, Mining Mach.	2,016
Construction Machinery and Equipment	1,808
Motor Vehicle Engines and Parts	854
Measuring Cont. Lab, Medical, and Optical Equipment	807
General Purpose Ind. Machines	775
Misc. Motor Vehicles	769
Equipment and Tools	722
Aircraft Engines and Parts	617

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT FOR NORTH CAROLINA

Prepared by

The Office of Canada
International Trade Administration
U.S. Department of Commerce (Room 3033)
Washington, D.C. 20230
(202) 377-3101

March 7, 1988

The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE NORTH CAROLINA-CANADA TRADING RELATIONSHIP

In 1986, Canada and NORTH CAROLINA traded over $1.6 billion worth of commodities. Whereas the United States tends to run a deficit in its goods trade with Canada, NORTH CAROLINA maintains a substantial surplus in its trading relationship with Canada.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for NORTH CAROLINA arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, NORTH CAROLINA consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. NORTH CAROLINA manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- NORTH CAROLINA exported $918.0 million worth of commodities to Canada in 1986.
  - Major exports included electronic computers; motor vehicle engines, engine parts, and other motor vehicle parts; man-made fiber yarn and thread; various inedible fabricated materials; chemicals (organic and inorganic); fabricated textile materials; furniture and fixtures; marine engines and parts; fertilizers and fertilizer materials; and broad woven fabrics, mixed fibers.
- NORTH CAROLINA imported $729.6 million worth of commodities from Canada in 1986.
  - Major imports included lumber, softwood; telecommunications and related equipment; office machines and equipment; motor vehicle engines and parts; newsprint paper; transportation equipment; tobacco; equipment and tools; textile fabricated materials; and aluminum.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
  - NORTH CAROLINA service industry establishments recorded over $7 billion in revenues in 1982.
  - Major service industry employers include health, business, educational, membership organizations, and social services.

  - In 1986, over 238,000 Canadian tourists spent $19 million in NORTH CAROLINA.

- More than one out of twelve NORTH CAROLINIANS working in the manufacturing sector hold export-related positions.

  - $7.6 billion of NORTH CAROLINA manufacturing shipments are related to exports (1983).

  - In the NORTH CAROLINA manufacturing sector, 68,000 jobs are dependent on exports to other countries (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- The two leading American export prospects to Canada in 1988, according to the U.S. Foreign Commercial Service in that country, are among NORTH CAROLINA'S top export items. 1986 sales to Canada of these products--various motor vehicle components and electronic computers--were $112 million and $137 million, respectively. Over 51,000 NORTH CAROLINIANS are employed in the machinery industry, which produces many computer goods. Another 20,000 work in the manufacture of transportation equipment.

  - NORTH CAROLINA's auto sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment within its borders by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.

  - After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.

  - The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

- The 3.9% Canadian duty on computers will end on January 1, 1989, increasing the price competitiveness of NORTH CAROLINA's electronic computer exports.

o With the expansion of government procurement opportunities through the FTA, NORTH CAROLINA firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

o NORTH CAROLINA sold $21.8 million worth of furniture and fixtures to Canada in 1986. Over 82,000 NORTH CAROLINA workers are employed in the manufacture of furniture and fixtures. U.S. furniture producers who sell these products in North America have been disadvantaged by the wide disparity in American and Canadian tariffs on these goods.

- The FTA phases out the Canadian duties on furniture and fixtures, making NORTH CAROLINA producers of these products more price competitive in Canada's market. Duties on these products, which are currently quite high in Canada, will be eliminated by January 1, 1993.

o In 1986, NORTH CAROLINA exported about $108 million in man-made fiber yarn and thread, woven fabrics and various fabricated materials to Canada. Over 206,000 NORTH CAROLINIANS are employed in the manufacture of textile mill products, making this the state's largest manufacturing industry.

- NORTH CAROLINA's exports of these products are encouraged by the staged elimination of Canadian duties on textile products. By 1998, duties on these goods will be eliminated.

- NORTH CAROLINA textile manufacturers are protected against third-country imports through the Free Trade Agreement by the rule of origin and by specified limits on the quantity of offshore textile materials that can be used in Canadian textile products sold to the United States.

o Investment by Canadian companies in NORTH CAROLINA is over $1.9 billion. Employment generated by Canadian investments is estimated to be over 26,000.

- The FTA encourages additional NORTH CAROLINA investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both NORTH CAROLINA and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

o NORTH CAROLINA conducts millions of dollars worth of services trade with Canada each year. Over 614,000 NORTH CAROLINIANS work in the service, finance, insurance and real estate fields.

- The FTA facilitates the entry of certain NORTH CAROLINA business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.

- The FTA enhances service trade opportunities for NORTH CAROLINA businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

- The FTA covers dozens of services in the agriculture and forestry, mining, construction, distributive trade, insurance and real estate, and commercial service sectors.

- NORTH CAROLINA firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.

- Future licensing and certification requirements for NORTH CAROLINA residents providing professional services such as accountants and engineers will be based primarily on competence and ability--not citizenship.

o In 1986, NORTH CAROLINA exported to Canada over $26 million worth of inorganic and organic chemicals These commodities are among the top 20 export prospects to Canada in 1988, and are among the state's major sales items to Canada. Over 34,000 NORTH CAROLINIANS are employed in the industry which manufactures chemicals.

- NORTH CAROLINA'S opportunities expand in these fast-growing sectors with the gradual elimination of Canadian duties on all of these products. Some duties on chemical products will be phased out by

January 1, 1993, others will be eliminated in steps by January 1, 1998. This will improve the price competitiveness of NORTH CAROLINA's chemical exports in the Canadian market.

- In 1986, NORTH CAROLINA exported nearly $18 million worth of fertilizer and fertilizer material.
  - The FTA ensures that these products continue to enter Canada duty free in the years ahead. This provides some security to the NORTH CAROLINA producers of fertilizer products.
- The FTA specifically continues in force the 1986 U.S.-Canada Memorandum of Understanding on Softwood Lumber and allows measures necessary to enforce it. This agreement concerning Canadian provincial pricing practices for stumpage resolved a subsidy case against imports of Canadian softwood lumber.

STATE STATISTICAL PROFILE: NORTH CAROLINA

Population (July 1, 1987) 6,413,000

Area 52,669 square miles
136,413 square kilometers

Gross State Product ($ millions, 1988 Forecast)

$113,970

Nonagricultural Employees- Total and By Industry Groups
(in 000s, October 1987)

Total:	2,879
Industry Groups:	
Mining	5
Construction	170
Manufacturing	862
Transportation and Public Utilities	137
Wholesale and Retail Trade	643
Finance, Insurance and Real Estate	128
Other Services	486
Government	447

Manufacturing Sector Employment- Total and Major Groups
(1985)

Total:	840,500
Textile Mill Products	206,400
Furniture and Fixtures	82,300
Apparel & Other Textile Prod.	76,900
Electric & Electronic Equip.	61,100
Machinery, Except Electrical	51,800

Service Sector Employment- Total and Major Groups
(1985)*

Total:	522,800
Health Services	122,400
Business Services	74,200
Membership Organizations	32,200
Banking	30,700
Educational Services	30,600

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in NORTH CAROLINA

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$7,598
Canada	1,961

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	490
Canada	53

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986): $917,984**

Leading NORTH CAROLINA Exports to Canada:

Electronic Computers	136,993
Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	111,826
Man-made Fiber Yarn and Thread	37,621
Misc. Fabricated Materials, Inedible	27,931
Chemicals (Organic and Inorganic)	26,807
Misc. Textile Fabricated Materials	25,117
Furniture and Fixtures	21,846
Marine Engines and Parts	20,209
Fertilizers and Fertilizer Materials	17,984
Broad Woven Fabrics, Mixed Fibers	17,283

Imports from Canada ($ 000s, 1986): $729,631

Leading NORTH CAROLINA Imports from Canada:

Lumber, Softwood	126,235
Misc. Telecommunications and Related Equipment	99,376
Office Machines and Equipment	72,715
Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	29,902
Newsprint Paper	23,160
Misc. Transportation Equipment	21,774
Tobacco	21,242
Various Equipment and Tools	16,170
Misc. Textile Fabricated Materials	16,073
Aluminum, Including Alloys	15,840

** It is likely that exports from the State of NORTH CAROLINA to Canada are underestimated. Approximately one out of every seven dollars worth of U.S. exports to Canada cannot be assigned to a state. Most of these exports are automotive products, which are among NORTH CAROLINA's leading exports to Canada.

Sources: Statistics Canada, U.S. Department of Commerce, U.S. Department of Commerce and University of North Carolina-Charlotte Business School.

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BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT
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THE NORTH DAKOTA-CANADA TRADING RELATIONSHIP

In 1986, Canada and NORTH DAKOTA traded over $456.5 million worth of commodities.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for NORTH DAKOTA arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, NORTH DAKOTA consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. NORTH DAKOTA manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- o NORTH DAKOTA exported $145.9 million worth of commodities to Canada in 1986.
    - Major exports included miscellaneous motor vehicles; wheel tractors; undressed fur skins; combine reaper-threshers; front end loaders; soil preparation, seeding and fertilizing machinery; agricultural machinery and equipment; inorganic and organic chemicals; corn (maize) shelled; and other oil seeds, oil nuts and oil kernels.
- o NORTH DAKOTA imported $310.6 million worth of commodities from Canada in 1986.
    - Major imports included fertilizers and fertilizer material; petroleum and coal products; motor vehicle engines and parts; inorganic and organic chemicals; electricity; other agricultural machinery and equipment; other equipment and tools; newsprint paper; soil preparation, seeding and fertilizing equipment, and live animals.
- o In 1986, United States-Canada trade in services exceeded $25.4 billion.
    - On a national per capita basis, NORTH DAKOTA's 672 thousand residents would be expected to account for $70.1 million of this trade. Given the state's geographic location on the Canadian border, however, this figure is probably much higher.

  - NORTH DAKOTA service industry establishments recorded over $991 million in revenues in 1982.
  - Major service industry employers include health, membership organizations, hotels and lodging places, social, and banking services.
  - In 1986, 380,400 Canadian tourists spent $27 million in NORTH DAKOTA.

- More than one out of eleven NORTH DAKOTANS working in the manufacturing sector hold export-related jobs.
  - $200 million of NORTH DAKOTA manufacturing shipments are related to exports (1983).
  - In the NORTH DAKOTA manufacturing sector, about 1,000 positions are dependent on exports.

IMPACT OF THE FREE TRADE AGREEMENT

- A few of the leading American export prospects to Canada in 1988, according to the U.S. Foreign Commercial Service in that country, are among NORTH DAKOTA's top export items. 1986 sales to Canada of these products--organic and inorganic chemical--were $4.1 million. Over 200 NORTH DAKOTANS are employed in the chemical industry.
  - NORTH DAKOTA's opportunities expand in these fast growing sectors with the gradual elimination of duties on these products by January 1, 1998. Some chemicals and chemical products which currently face substantial Canadian tariffs will enter the country duty free by January 1, 1993.
- NORTH DAKOTA imported over $54 million in petroleum and coal products in 1986. This represents approximately 4% of the state's energy expenditures.
  - The Free Trade Agreement provides for free bilateral energy trade, ensuring NORTH DAKOTA nondiscriminatory access to energy supplies. The FTA's energy provisions guarantee that Canada will not restrict exports, impose export taxes or establish export price requirements, subject to very limited national security and short supply exceptions.
- With the expansion of government procurement opportunities through the FTA, NORTH DAKOTA firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.
- Investment by Canadian companies in NORTH DAKOTA is $999 million. Employment generated by Canadian investments is estimated to be over 1,100.

  - The FTA encourages additional NORTH DAKOTA investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

- NORTH DAKOTA conducts millions of dollars worth of services trade with Canada each year. Over 68,000 NORTH DAKOTANS work in the service, finance, insurance and real estate fields.

  - The FTA facilitates the entry of certain NORTH DAKOTA business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.

  - The FTA enhances service trade opportunities for NORTH DAKOTA businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

  - The FTA covers dozens of services in the agriculture and forestry, mining; construction, distributive trade, insurance and real estate, and commercial service sectors.

  - NORTH DAKOTA firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.

  - Future licensing and certification requirements for NORTH DAKOTA residents providing professional services (such as accountants and engineers) will be based primarily on competence and ability--not citizenship.

- In 1986, NORTH DAKOTA exported to Canada over $20 million in miscellaneous motor vehicles, close to $16 million in new wheeled tractors, nearly $10 million in combines reaper-threshers, and over $6 million in agricultural machinery. Over 900 NORTH DAKOTANS are employed in the industry which manufactures transportation equipment and nearly 3,000 work in the manufacture of non-electrical equipment.

  - NORTH DAKOTA's opportunities expand in these fast-growing sectors with the FTA. The U.S. and Canadian governments have agreed to work together to improve access to each other's [agricultural] markets through the elimination or reduction of import barriers. The reduction or elimination of import barriers for agricultural products should lead to expanded markets and consequently greater demand for agricultural machinery.

- NORTH DAKOTA's motor vehicle manufacturers stand to profit from the staged elimination of the Canadian restriction on the importation of used American motor vehicles.

- NORTH DAKOTA's auto sector also will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.

- After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.

- The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

o In 1986, NORTH DAKOTA imported over $56 million worth of fertilizer and fertilizer material.

  - The FTA ensures that these products continue to enter the United States duty free in the years ahead. This will provide additional security to those NORTH DAKOTANS many of whom depend on fertilizer to grow agricultural commodities.

STATE STATISTICAL PROFILE: NORTH DAKOTA

Population (July 1, 1987)	672,000
Area	70,702 square miles 183,119 square kilometers

Gross State Product ($ millions, 1986)

Total:	$9,749
Private Nonfarm:	6,849
Government:	1,504
Farm:	1,396

Nonagricultural Employees- Total and By Industry Groups (in 000s, October 1987)

Total:	258
Industry Groups:	
Mining	4
Construction	13
Manufacturing	16
Transportation and Public Utilities	16
Wholesale and Retail Trade	68
Finance, Insurance and Real Estate	12
Other Services	62
Government	65

Manufacturing Sector Employment- Total and Major Groups (1985)

Total:	14,800
Food and Kindred Products	4,000
Machinery, Except Electrical	3,000
Printing and Publishing	2,500
Transportation Equipment	900
Electric & Electronic Equip.	900

Service Sector Employment- Total and Major Groups (1985)*

Total:	68,400
Health Services	25,200
Membership Organizations	5,800
Hotels and Lodging Places	4,500
Banking	4,400
Social Services	4,300

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in NORTH DAKOTA

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$1,389
Canada	999

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	180
Canada	65

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986): $145,871**

Leading NORTH DAKOTA Exports to Canada:

Various Motor Vehicles	$20,416
Wheel Tractors, New	15,786
Fur Skins, Undressed	10,752
Combine Reaper-Threshers	9,487
Front End Loaders	8,886
Soil Preparation, Seeding and Fertilizer Machinery	6,674
Agricultural Machinery and Equipment	6,252
Organic and Inorganic Chemicals	4,143
Corn (Maize) Shelled	3,828
Oil Seeds, Oil Nuts, and Oil Kernels	3,530

Imports from Canada ($ 000s, 1986): $310,628

Leading NORTH DAKOTA Imports from Canada:

Fertilizers & Fertilizer Material	$56,655
Petroleum and Coal Products	54,189
Motor Vehicle Engines and Parts	37,818
Organic and Inorganic Chemicals	24,910
Electricity	15,834
Agricultural Machinery and Equipment	14,695
Equipment and Tools	8,498
Newsprint Paper	7,557
Soil Preparation, Seeding and Fertilizing Machines	7,530
Live Animals	7,503

** It is likely that exports from the State of NORTH DAKOTA to Canada are underestimated. Approximately one out of every seven dollars worth of U.S. exports to Canada cannot be assigned to a state. Most of these exports are automotive products, which are among NORTH DAKOTA's leading exports to Canada.

Sources: Statistics Canada, U.S. Department of Commerce, U.S. Department of Labor and the University of North Dakota.

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THE OHIO-CANADA TRADING RELATIONSHIP

In 1986, Canada and OHIO traded over $7.4 billion worth of commodities. If OHIO were an independent country, it would rank as Canada's third major trading partner after the United States and Japan. Among U.S. states, OHIO is third in total merchandise trade with Canada.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for OHIO arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, OHIO consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. OHIO manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- OHIO exported $4.4 billion worth of commodities to Canada in 1986.*
  - Major exports included motor vehicle engines and parts; coal; miscellaneous equipment and tools; rubber and plastic products; other transportation equipment; organic and inorganic chemicals; chemical products; bearings; trucks, tractors and chassis; and special industry machinery.
- OHIO imported $3.0 billion worth of commodities from Canada in 1986.
  - Major imports included motor vehicle engine parts; newsprint paper; petroleum and coal products; softwood lumber; inorganic and organic chemicals; wood pulp and similar pulp; aluminum and alloys; iron ores and concentrates; transportation equipment; and steel bars and rods.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
  - On a national per capita basis, OHIO's 10.8 million residents could be expected to account for $1.1 billion of this trade.
  - OHIO service industry establishments recorded over $18 billion in revenues in 1982.

  - Major service industry employers include health, educational, social, hotel and lodging place, personal, and business services.
  - In 1986, 487,000 Canadian tourists spent $33 million in OHIO.

o OHIO relies more heavily upon foreign markets for its manufacturing products than the United States as a whole. Of OHIO's one million manufacturing jobs, 12.6% are export related. This compares to a national average of 11.0%.

  - Export-related manufacturers' shipments totalled $15.2 billion in 1983.
  - OHIO maintains 137,000 manufacturing positions which depend on exports to other countries (1983).

IMPACT OF THE FREE TRADE AGREEMENT

o In 1986, OHIO exported to Canada over $1.8 billion in motor vehicle engines, engine parts and other motor vehicle parts. The state also sold to Canada some $106 million in trucks, truck tractors and chassis and other transportation equipment. According to the U.S. Foreign Commercial Service, auto parts and accessories and trucks are among the five leading American export prospects to Canada in 1988. Over 150,000 OHIOANS are employed in the manufacture of transportation equipment.

  - OHIO motor vehicle components and truck producers will benefit from the phaseout of Canadian import restrictions on used motor vehicles from the United States, and the elimination of duties on replacement auto parts by 1993.
  - OHIO's auto sector also will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.
  - After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for

the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.

  - The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

- With the expansion of government procurement opportunities through the FTA, OHIO firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

- In 1986, OHIO exported over $101 million in organic and inorganic chemicals. The U.S. Foreign Commercial Service cites industrial organic chemicals as one of the top ten export prospects to Canada in 1988. Over 43,000 OHIO workers are employed in the manufacture of chemical and allied products.

  - The FTA supports OHIO's exports of these products through the phaseout of most chemical duties over five years. The remaining tariffs on chemicals and chemical products will be eliminated by January 1, 1998.

- OHIO imported over $135 million in petroleum and coal products from Canada in 1986. In the same year, the state exported over $405 million worth of coal to Canada.

  - The Free Trade Agreement provides for less restricted bilateral energy trade, ensuring OHIO nondiscriminatory access to energy supplies. The FTA's energy provisions guarantee that Canada will not hinder exports, impose export taxes or establish export price requirements, subject to very limited national security and short supply exceptions.

  - The FTA energy provisions also ensure that OHIO coal exports to Canada continue to receive duty free treatment, and now guarantee more secure market access.

- Investment by Canadian companies in OHIO is $1.1 billion. Employment generated by Canadian investments is estimated to be over 16,000.

  - The FTA encourages additional OHIO investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both OHIO and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

- OHIO conducts over a billion dollars worth of services trade with Canada each year. Over 1.3 million OHIOANS work in the service, finance, insurance and real estate fields.

  - The FTA facilitates the entry of certain OHIO business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.

  - The FTA enhances service trade opportunities for OHIO businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

  - The FTA covers dozens of service sectors including insurance, health care facilities management, insurance agency, real estate agency, and coal mining services.

  - OHIO firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian services regulations.

  - Future licensing and certification requirements for OHIO residents providing services (such as accountants and engineers) will be based primarily on competence and ability--not citizenship.

- The Free Trade Agreement assures retransmission rights for American broadcasters. Specifically, Canada's copyright law will provide each U.S. copyright holder with a right of equitable and nondiscriminatory remuneration for any retransmission to the public of the copyrighter's programs (where the original transmission of the programs are carried in distant signals intended for free, over-the-air reception by the general public).

STATE STATISTICAL PROFILE: OHIO

Population (July 1, 1987)	10,784,000
Area	41,330 square miles 107,044 square kilometers

State Personal Income ($ millions, 1986)

Total:	$149,807

Nonagricultural Employees- Total and By Industry Groups
(in 000s, October 1987)

Total:	4,659
Industry Groups:	
Mining	21
Construction	196
Manufacturing	1,095
Transportation and Public Utilities	213
Wholesale and Retail Trade	1,119
Finance, Insurance and Real Estate	245
Other Services	1,074
Government	697

Manufacturing Sector Employment- Total and Major Groups
(in 000s, 1985)

Total:	1,131
Transportation Equipment	153
Machinery (Except Electrical)	152
Fabricated Metal Products	137
Administrative and Auxiliary	100
Electric and Electronic Equipment	89

Service Sector Employment- Total and Major Groups
(in 000s, 1985)**

Total:	1,143
Health Services	333
Business Services	157
Membership Organizations	75
Social Services	58
Educational Services	58

**Includes Finance, Insurance and Real Estate Industries

Foreign Investment in OHIO

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$8,660
Canada	1,070

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	596
Canada	95

Major Commodity Trade With Canada

Exports to Canada ($ in 000s, 1986): $4,431,621*

Leading OHIO Exports to Canada:

Motor Vehicle Engines and Parts	$1,475,130
Coal	405,511
Motor Vehicle Engines	359,805
Misc. Equipment and Tools	80,076
Rubber and Plastic Parts	69,598
Other Transportation Equipment	57,205
Other Chemical Products	55,152
Bearings	54,086
Trucks, Truck Tractors and Chassis	48,563
Other Special Industrial Machinery	45,875

Imports from Canada ($ in 000s, 1986): $2,990,665

Leading OHIO Imports from Canada:

Motor Vehicle Engines and parts	$986,354
Newsprint Paper	192,020
Petroleum and Coal Products	135,401
Softwood Lumber	124,029
Organic and Inorganic Chemicals	101,495
Wood and Similar Pulp	86,215
Aluminum, including Alloys	84,031
Iron Ores and Concentrates	69,569
Steel Bars and Rods	58,490
Other Transportation Equipment	58,388

* It is likely that exports from the State of OHIO to Canada are underestimated. Approximately one out of every seven dollars worth of U.S. exports to Canada cannot be assigned to a state. Most of these exports are automotive products, which are among OHIO's leading exports to Canada.

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT
FOR OKLAHOMA

Prepared by

The Office of Canada
International Trade Administration
U.S. Department of Commerce (Room 3033)
Washington, D.C. 20230
(202) 377-3101

March 7, 1988

The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE OKLAHOMA-CANADA TRADING RELATIONSHIP

In 1986, Canada and OKLAHOMA traded over $599 million worth of commodities.

Trade liberalizing accords, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increase their sales to each other. The opportunities for OKLAHOMA arise through the United States-Canada Free Trade Agreement's phaseout of Canada's tariffs, on average the highest in the industrialized world, the elimination of various non-tariff barriers, and generally improved access to the Canadian market.

Through the FTA, OKLAHOMA consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. The state's manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- OKLAHOMA exported $233 million worth of commodities to Canada in 1986.
  - Major exports included motor vehicle engines and parts; fertilizers; mining, oil, and gas machinery; marine engines and parts; organic and inorganic chemicals; drilling machinery; aircraft engines and parts; measuring, lab equipment, and valves.
- OKLAHOMA imported $366 million worth of commodities from Canada in 1986.
  - Major imports included softwood lumber; motor vehicle parts, radioactive ores, measuring equipment, aircraft parts, trucks, transportation equipment, steel bars and rods, petroleum and coal products, rubber and plastics materials.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
  - On a national per capita basis, OKLAHOMA'S 3.3 million residents would be expected to account for $342 million of this trade.
  - OKLAHOMA service industry establishments recorded over $5.6 billion in revenues in 1982.

- Major service industry employers include business services, health services, business services, membership organizations and social services.

- In 1986, 30,300 Canadian tourists spent $4 million in OKLAHOMA.

o Nearly one out of nine OKLAHOMANS working in the manufacturing sector hold export-related positions.

- $2.6 billion in OKLAHOMA manufacturing shipments are related to exports (1983).

- In the OKLAHOMA manufacturing sector, 20,000 positions are dependent on exports.

IMPACT OF THE FREE TRADE AGREEMENT

o The two leading American export prospects to Canada in 1988, according to the U.S. Foreign Commercial Service in that country, are among OKLAHOMA'S top export items. 1986 sales to Canada of these products--motor vehicle parts and organic and inorganic chemicals--were $26 million and $13 million, respectively. Over 18,000 OKLAHOMANS are employed in the transportation equipment industry, which produces most motor vehicle components. Another 3,000 work in the manufacture of chemical products.

- OKLAHOMA's motor vehicle component producers stand to gain from the staged elimination of the Canadian restriction on the importation of used American aircraft.

- OKLAHOMA's auto sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.

- After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.

  - The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

- With the expansion of government procurement opportunities through the FTA, OKLAHOMA firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

- OKLAHOMA imported over $36 million in radioactive ores and concentrates in 1986.

  - The Free Trade Agreement provides for free bilateral energy trade, ensuring OKLAHOMA nondiscriminatory access to energy supplies. The FTA's energy provisions guarantee that Canada will not restrict exports, impose export taxes or establish export price requirements, subject to very limited national security and short supply exceptions.

  - Canada is our leading supplier of uranium. Canadian energy imports are especially important to the United States because of their security compared with other import sources.

- Investment by Canadian companies in OKLAHOMA is $1.3 billion. Employment generated by Canadian investments is estimated to be over 9,000.

  - The FTA encourages additional OKLAHOMA investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both OKLAHOMA and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

- OKLAHOMA conducts over a billion dollars worth of services trade with Canada each year. Over 288,000 OKLAHOMANS work in the service, finance, insurance and real estate fields.

- The FTA facilitates the entry of certain OKLAHOMA business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.

- The FTA enhances service trade opportunities for OKLAHOMA businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

- The FTA covers dozens of services in the agriculture and forestry, mining, construction, distributive trade; insurance and real estate, and commercial service sectors.

- OKLAHOMA firms will be assured the right of establishment, the right to sell across the border, and greater transparency in Canadian regulations.

- Future licensing and certification requirements for OKLAHOMA residents providing professional services (such as accountants and engineers) will be based primarily on competence and ability--not citizenship.

o In 1986, OKLAHOMA exported to Canada nearly $27 million in motor vehicle engines and parts, over $13 million in organic and inorganic chemicals, and over $8 million in aircraft engines and parts. These commodities are among the top export prospects to Canada in 1988. Over 18,000 OKLAHOMANS are employed in the industry which manufactures transportation equipment; and over 3,000 in the chemical manufacturing industry.

  - OKLAHOMA'S opportunities expand in these fast-growing sectors with the gradual elimination of duties on all of these products.

o In 1986, OKLAHOMA imported over $57 million worth of fertilizer and fertilizer material.

  - The FTA ensures that these products continue to enter the United States duty free in the years ahead. This will provide some security to those working on OKLAHOMA'S 87,000 farms, many of which depend on fertilizer to grow agricultural commodities.

STATE STATISTICAL PROFILE: OKLAHOMA

Population (July 1, 1987)	3,272,000
Area	69,956 square miles 181,186 square kilometers
State Personal Income ($ millions, 1986)	$40,595

Nonagricultural Employees- Total and By Industry Groups
(in 000s, October 1987)

Total:	1,135
Industry Groups:	
Mining	54
Construction	40
Manufacturing	160
Transportation and Public Utilities	62
Wholesale and Retail Trade	274
Finance, Insurance and Real Estate	60
Services	228
Government	258

Manufacturing Sector Employment- Total and Major Groups
(1985)

Total:	171,400
Machinery, Except Electrical	31,900
Transportation Equipment	18,600
Fabricated Metal Products	17,100
Food and Kindred Products	12,200
Rubber and Misc. Plastic Prod.	11,800
Instruments and Related Prod.	12,100

Service Sector Employment- Total and Major Groups
(1985)*

Total:	281,200
Health Services	68,500
Business Services	33,800
Banking	22,600
Membership Organizations	22,500
Social Services	14,000

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in OKLAHOMA

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$4,835
Canada	1,349

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	355
Canada	93

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986): $233,427**

Leading OKLAHOMA Exports to Canada:

Motor Vehicle Engines and Parts	$26,410
Fertilizer and Fertilizer Materials	15,974
Mining, Oil, and Gas Machinery	14,778
Marine Engines and Parts	14,600
Inorganic and Organic Chemicals	13,241
Drilling Machinery and Drill Bits	9,392
Aircraft Engines and Parts	8,110
Measuring, Lab Equipment	7,988
General Purpose Industrial Mach.	7,430
Valves	7,172

Imports from Canada ($ 000s, 1986): $366,127

Leading OKLAHOMA Imports from Canada:

Motor Vehicle Parts Except Engines	$213,773
Radioactive Ores and Concentrates	36,503
Measuring Lab and Opt. Equipment	22,677
Aircraft Parts, Except Engines	6,932
Softwood Lumber	5,899
Trucks, Truck Tractors and Chassis	5,663
Misc. Transportation Equipment	5,533
Steel Bars and Rods	4,939
Petroleum and Coal Products	4,620
Syn. Rubber and Plastics Materials	4,315

** It is likely that exports from the State of OKLAHOMA to Canada are underestimated. Approximately one out of every seven dollars worth of U.S. exports to Canada cannot be assigned to a state. Most of these exports are automotive products, which are among OKLAHOMA's leading exports to Canada.

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT
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Washington, D.C. 20230
(202) 377-3101

March 7, 1988

The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE OREGON-CANADA TRADING RELATIONSHIP

In 1986, Canada and OREGON traded over $811 million worth of commodities.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for OREGON arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, the highest in the industrial world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, OREGON's consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. OREGON's manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- OREGON exported $390 million worth of commodities to Canada in 1986.
  - Major exports included lumber; trucks, truck tractors and chassis; motor vehicle engines, engine parts and other motor vehicle parts; wood fabricated materials; electronic computers; industrial machinery; crude vegetable products; electrical property measuring instruments; and veneer.
- OREGON imported $421 million worth of commodities from Canada in 1986.
  - Major imports included lumber and softwood, wood pulp; petroleum and coal products; trucks, truck tractors, and chassis; fertilizers and fertilizer material; shingles and shakes; chemicals; electricity; newsprint paper; and motor vehicle engines, engine parts and other motor vehicle parts.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
  - On a national per capita basis, OREGON's 2.7 million residents would be expected to account for $285 million of this trade.
  - OREGON service industry establishments recorded over $4.5 billion in revenues in 1982.

  - Major service industry employers include hotels and other lodging places, business services, health services, personal services, and social services.
  - In 1986, 277,500 Canadian tourists spent $23 million in OREGON.

- Nearly one out of eight OREGON workers employed in the manufacturing sector hold positions that are related to exports.

  - $2.3 billion of OREGON manufacturing shipments are related to exports (1983).
  - In the OREGON manufacturing sector, 24,000 positions are dependent on exports (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- The two leading American export prospects to Canada in 1988, according to the U.S. Foreign Commercial Service in that country, are among OREGON's top export items. 1986 sales to Canada of these products--various motor vehicle components and electronic computers--were $27 million and $21 million, respectively. In the same year, OREGON also exported over $33 million in trucks, truck tractors and chassis to Canada. Over 15,000 OREGON workers are employed in the machinery industry, which produces many computer goods. Another 7,000 work in the manufacture of transportation equipment.

  - OREGON truck and motor vehicle parts manufacturers will benefit from the phaseout of Canadian import restrictions on used motor vehicles, and the elimination of duties on certain after-market parts by 1993.
  - OREGON's auto sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.
  - After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.

  - The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

- With the expansion of government procurement opportunities through the FTA, OREGON firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

- OREGON imported $42 million in petroleum and coal products and electricity 1986.

  - The Free Trade Agreement provides for free bilateral energy trade, ensuring OREGON nondiscriminatory access to energy supplies. The FTA's energy provisions guarantee that Canada will not restrict exports, impose export taxes or establish export price requirements, subject to very limited national security and short supply exceptions.

- Investment by Canadian companies in OREGON is $380 million. Employment generated by Canadian investments is estimated to be over 2,800.

  - The FTA encourages additional OREGON investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both OREGON and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

- OREGON conducts tens of millions of dollars worth of services trade with Canada each year. Over 323,400 OREGON workers are employed in the service, finance, insurance and real estate fields.

  - The FTA facilitates the entry of certain OREGON business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.

  - The FTA enhances service trade opportunities for OREGON businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

  - The FTA covers dozens of services in the agriculture and forestry; mining; construction; distributive trade; insurance and real estate; and commercial service sectors.

  - OREGON firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.

  - Future licensing and certification requirements for OREGON residents providing professional services such as accountants and engineers will be based primarily on competence and ability--not citizenship.

- OREGON exported nearly $10.5 million electrical property measuring instruments to Canada in 1986. Over 12,000 workers are employed in OREGON's instruments and related products industry.

  - As with all other traded commodities, the Free Trade Agreement phases out the duties on these devices. This will make OREGON exporters of measuring devices more price competitive in the Canadian market.

- The FTA specifically continues in force the 1986 U.S.-Canada Memorandum of Understanding on Softwood Lumber and allows measures necessary to enforce it. This agreement concerning Canadian provincial pricing practices for stumpage resolved a subsidy case against imports of Canadian softwood lumber.

STATE STATISTICAL PROFILE: OREGON

Population (July 1, 1987)	2,724,000
Area	97,073 square miles 251,419 square kilometers
State Personal Income ($ millions, 1986)	35,955

Nonagricultural Employees- Total and By Industry Groups
(in 000s, October 1987)

Total:	1,120
Industry Groups:	
Mining	1
Construction	39
Manufacturing	206
Transportation and Public Utilities	58
Wholesale and Retail Trade	284
Finance, Insurance and Real Estate	73
Other Services	250
Government	209

Manufacturing Sector Employment- Total and Major Groups
(1985)

Total:	191,600
Lumber and Wood Products	59,200
Food and Kindred Products	19,300
Machinery, Except Electrical	15,700
Electric and Electronic Eq.	13,800
Instruments and Related Prod.	12,100

Service Sector Employment- Total and Major Groups
(1985)*

Total:	461,600
Health Services	72,300
Business Services	32,300
Social Services	18,000
Membership Organizations	17,300
Banking	15,200

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in OREGON

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):	
All countries	$1,747
Canada	380

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)	
All countries	312
Canada	61

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986): $390,446**

Leading OREGON Exports to Canada:

Lumber	$43,529
Trucks, Truck Tractors and Chassis	33,069
Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	26,831
Other Wood Fabricated Materials	22,837
Plywood and Wood Building Boards	22,714
Electronic Computers	21,310
Other Special Industry Machinery	14,668
Other Crude Vegetable Products	11,075
Electrical Property Measuring Instruments	10,481
Veneer	9,088

Imports from Canada ($ 000s, 1986): $421,211

Leading OREGON Imports from Canada:

Lumber, Softwood	$52,675
Wood Pulp and Similar Pulp	29,786
Petroleum and Coal Products	25,259
Trucks, Truck Tractors and Chassis	23,175
Fertilizer and Fertilizer Materials	19,386
Shingles and Shakes	17,159
Chemicals (Inorganic and Organic)	16,801
Electricity	16,501
Newsprint Paper	14,327
Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	13,579

** It is likely that exports from the State of OREGON to Canada are underestimated. Approximately one out of every seven dollars worth of U.S. exports to Canada cannot be assigned to a state. Most of these exports are automotive products, which are among OREGON's leading exports to Canada.

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

UNITED STATES DEPARTMENT OF COMMERCE
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BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT FOR PENNSYLVANIA

Prepared by

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March 7, 1988

The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE PENNSYLVANIA-CANADA TRADING RELATIONSHIP

In 1986, Canada and PENNSYLVANIA traded $4.2 billion worth of commodities. While the United States as a whole traditionally has a trade deficit with Canada, PENNSYLVANIA maintains almost balanced trade with Canada.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for PENNSYLVANIA arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, PENNSYLVANIA consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. PENNSYLVANIA manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- PENNSYLVANIA exported $2.1 billion worth of commodities to Canada in 1986.*
    - Major exports included motor vehicle engines, engine parts and other motor vehicle parts; electronic computers; passenger autos and chassis; organic and inorganic chemicals; iron ores and concentrates; lumber; and coal.
- PENNSYLVANIA imported $2.1 billion worth of commodities from Canada in 1986.
    - Major imports included newsprint paper; softwood lumber; motor vehicle engines, engine parts and other motor vehicle parts; aluminum, including alloys; wood pulp and similar pulp; iron ores and concentrates; fresh, chilled and frozen meats; and nickel and alloys.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
    - On a national per capita basis, PENNSYLVANIA's nearly 12 million residents would be expected to account for over $1.2 billion of this trade.
    - Over 64,000 PENNSYLVANIA service establishments recorded $22.4 billion in revenues in 1982.

  - Major service industry employers include health services, business services, and educational services.
  - In 1986, over 507,000 Canadian tourists spent $36 million in PENNSYLVANIA.
- Approximately 120,000 PENNSYLVANIA jobs are maintained by export-related manufacturing.
  - Export-related manufacturers' shipments totalled $11.2 billion in 1983.
  - Nearly 11% of PENNSYLVANIA's manufacturers' shipments are export-related (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- With the expansion of government procurement opportunities through the FTA, PENNSYLVANIA firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.
- Three of PENNSYLVANIA's leading exports to Canada include various motor vehicle components; passenger autos and chassis; and rubber and plastic products. Together, these products account for $356 million of the state's exports to Canada. Over 97,039 persons are employed in PENNSYLVANIA's transportation equipment and rubber and miscellaneous plastics products manufacturing industries.
  - The Free Trade Agreement will help PENNSYLVANIA to increase its exports of these products through the phasing out of tariffs and certain nontariff barriers that now restrict the entry of such goods into Canada.
  - PENNSYLVANIA's auto sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.
  - After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for

the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.

- The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

o One of PENNSYLVANIA's leading exports to Canada is mining, oil and gas machinery ($770,000 in 1986). Over 13,000 are employed in the state in oil and gas extraction.

- The FTA assures market access for Canadian energy products exported to the U.S. Hence, it also will contribute to an expanded demand for mining, oil and gas machinery from American suppliers.

o Investment by Canadian companies in PENNSYLVANIA is $2.0 billion. Employment generated by Canadian investments is estimated to be 28,072.

- The FTA encourages additional PENNSYLVANIA investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both PENNSYLVANIA and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

o The chemical and allied products industry maintains ove 38,000 jobs in PENNSYLVANIA. In 1986, PENNSYLVANIA exported over $54 million of inorganic and organic chemical products to Canada.

- The FTA supports PENNSYLVANIA's exports of such products through the phaseout of Canadian duties. The U.S. Foreign Commercial Service in Canada rates industrial inorganic and organic chemicals as two of the 20 best export prospects for U.S. firms.

o PENNSYLVANIA conducts millions of dollars worth of services trade with Canada each year. Over 1.4 million employees work in the service, finance, insurance and real estate fields.

- The FTA facilitates the entry of certain PENNSYLVANIA business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise without the customs delays that now exist.

- The FTA enhances service trade opportunities for PENNSYLVANIA businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

- The FTA covers dozens of services, including construction, metal mining, hotel reservation, credit bureau, real estate, oil and gas field, tourism and management services.

- PENNSYLVANIA firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.

- Future licensing and certification requirements for PENNSYLVANIA residents providing professional services such as accountants and engineers will be based primarily on competence and ability--not citizenship.

STATE STATISTICAL PROFILE: PENNSYLVANIA

Population (July 1, 1987)	11,936,000
Area	45,308 square miles 117,348 square kilometers

State Personal Income ($ millions, 1986)

Total:	$169,392

Nonfarm Employees- Total and Selected Industry Groups (1985)

Total:	4,066,300
Selected Industry Groups:	
Agricultural Services, Forestry and Fish	12,300
Mining	38,300
Contract Construction	185,100
Manufacturing	1,105,900
Transportation and Public Utilities	218,400
Wholesale Trade	251,100
Retail Trade	796,800
Finance, Insurance and Real Estate	273,000
Other Services	1,143,100

Manufacturing Sector Employment- Total and Major Groups (1985)

Total:	1,105,900
Machinery (Except Electrical)	106,900
Apparel & Other Textile Prod.	103,500
Primary Metal Industries	92,700
Fabricated Metal Products	91,100
Electronic & Electronic Equip.	90,400

Service Sector Employment- Total and Major Groups (1985)**

Total:	1,416,000
Health Services	382,000
Business Services	184,200
Education Services	128,100
Banking	77,100
Insurance Carriers	77,000

**Includes Finance, Insurance and Real Estate Industries

Foreign Investment in PENNSYLVANIA

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$8,600
Canada	2,022

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	834
Canada	89

Major Commodity Trade With Canada

Exports to Canada ($ 000's, 1986): $2,099,755*

Leading PENNSYLVANIA Exports to Canada:

Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle	$213,628
Electronic Computers	78,551
Passenger Autos and Chassis	74,845
Synthetic & Reclaimed Rubber, Plastic Materials	67,627
Organic & Inorganic Chemicals	54,350
Other Chemical Products	42,769
Iron Ores & Concentrates	38,555
Lumber	36,773
Coal	35,954
Railway & Railway Rolling Stock	35,555

Imports from Canada ($ 000's, 1986): $2,093,480

Leading PENNSYLVANIA Imports from Canada:

Newsprint Paper	$263,027
Lumber Softwood	158,812
Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	143,803
Aluminum, Inc. Alloys	138,395
Wood Pulp & Similar Pulp	102,126
Iron Ores and Concentrates	74,082
Meat, Fresh, Chilled or Frozen	72,996
Nickel and Alloys	54,285
Trucks, Truck Tractors & Chassis	49,816
Misc. Equipment and Tools	46,074

- It is likely that exports from the State of PENNSYLVANIA to Canada are underestimated. Approximately one out of every seven dollars worth of U.S. exports to Canada cannot be assigned to a state. Most of these exports are automotive products, which are among PENNSYLVANIA's leading exports to Canada.

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT FOR RHODE ISLAND

Prepared by

The Office of Canada
International Trade Administration
U.S. Department of Commerce (Room 3033)
Washington, D.C. 20230
(202) 377-3101

March 7, 1988

The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE RHODE ISLAND-CANADA TRADING RELATIONSHIP

In 1986, Canada and RHODE ISLAND traded $593 million worth of commodities.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for RHODE ISLAND arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, RHODE ISLAND consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. RHODE ISLAND manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- RHODE ISLAND exported $128 million worth of commodities to Canada in 1986.
    - Major exports included electronic computers; metal fabricated basic products; watches, clocks, jewelry, and silverware; precious metals, including alloys; various inedible end products; and fish and marine products.
- RHODE ISLAND imported $465 million worth of commodities from Canada in 1986.
    - Major imports included precious metals (including alloys); newsprint paper; softwood lumber; fish products; miscellaneous non-metal mineral basic products; iron and steel alloys; fresh, chilled and frozen meat, and ships and boats.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
    - On a national per capita basis, RHODE ISLAND's 986,000 residents can be expected to account for $103 million of this trade.
    - RHODE ISLAND service industry establishments recorded $1.7 billion in revenues in 1982.
    - Major service industry employers include health, business, educational, and social services, membership organizations, and miscellaneous services.

  - In 1986, 26,900 Canadian tourists spent $3 million in RHODE ISLAND.

- Approximately one in nine RHODE ISLANDERS working in the manufacturing sector hold positions related to exports to other countries.
  - Export-related manufacturers' shipments totalled $900 million in 1983.
  - Approximately 12,000 manufacturing jobs in RHODE ISLAND depend on exports (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- The U.S. Foreign Commercial Service in Canada reports that computers and peripherals are the number one export prospect to that country in 1988. During 1986, RHODE ISLAND's leading export to Canada was electronic computers with sales of $14 million. Nearly 10,000 RHODE ISLANDERS are employed in the machinery industry, which produces computer products.
  - The 3.9% Canadian duty on computers will end on January 1, 1989. The FTA provisions on enhanced telecommunications and computer services ensure further development of an open and competitive Canadian market, including access to and the use of the basic telecommunications network.
- RHODE ISLAND exported $3.3 million in glass products to Canada in 1986. About 2,400 RHODE ISLANDERS work in the industry which manufactures stone, clay and glass products.
  - The Free Trade Agreement phases out the duty on many glass products within five years of its implementation, and will eliminate duties on all glass products by 1998. This will increase the price competitiveness of the state's glass producers' wares in the Canadian market.
- With the expansion of government procurement opportunities through the FTA, RHODE ISLAND firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.
- Investment by Canadian companies in RHODE ISLAND equaled $45 million in 1985, generating significant employment opportunities.

- The FTA encourages additional RHODE ISLAND investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both RHODE ISLAND and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

o RHODE ISLAND conducts millions of dollars worth of services trade with Canada each year. Over 124,000 RHODE ISLANDERS work in the service, finance, insurance and real estate fields.

  - The FTA facilitates the entry of certain RHODE ISLAND business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable these individuals to provide their expertise without the customs delays that now exist.

  - The FTA enhances service trade opportunities for RHODE ISLAND businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

  - The FTA covers a wide range of services, including dozens in the agricultural and forestry, mining, construction, distributive trade, insurance and real estate, and commercial service sectors.

  - RHODE ISLAND firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.

  - Future licensing and certification requirements for RHODE ISLAND residents providing professional services such as accountants and engineers will be based primarily on competence and ability--not citizenship.

o In 1986, RHODE ISLAND exported nearly $11 million in various metal fabricated basic products to Canada. The state's fabricated metal products industry is the largest industry within the manufacturing sector, employing over 17,000.

  - The FTA supports RHODE ISLAND's exports of these products through the phaseout of duties that have in the past discouraged the sale of many commodities in Canada.

STATE STATISTICAL PROFILE: RHODE ISLAND

Population (July 1, 1987)	986,000
Area	1,212 square miles 3,140 square kilometers

Gross State Product (in millions, 1986)

Total:	$ 14,213

Nonagricultural Employees- Total and By Industry Groups (October 1987)

Total:	455,400
Industry Groups:	
Mining	200
Construction	1,950
Manufacturing	121,300
Transportation and Public Utilities	15,300
Wholesale and Retail Trade	102,000
Finance, Insurance and Real Estate	25,400
Other Services	113,700
Government	58,000

Manufacturing Sector Employment- Total and Major Groups (1985)

Total:	117,600
Misc. Manufacturing Industries	26,400
Fabricated Metal Products	17,500
Electric/Electronic Equipment	9,800
Textile Mill Products	9,300
Machinery (Except Electrical)	6,800

Service Sector Employment- Total and Major Groups (1985)*

Total:	124,200
Health Services	36,900
Business Services	16,100
Educational Services	14,300
Insurance Carriers	6,700
Social Services	6,400

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in RHODE ISLAND

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$435
Canada	45

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	135
Canada	14

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986):	$128,363

Leading RHODE ISLAND Exports to Canada:

Electronic Computers	$13,996
Misc. Metal Fabricated Basic Products	10,789
Watches, Clocks, Jewelry and Silverware	10,451
Precious Metals (Including Alloys)	5,783
Various Inedible End Products	4,310
Fish and Marine Animals	4,302
Misc. Metals in Ores, Concentrates, and Scrap	4,269
Games, Toys and Childrens' Vehicles	3,888
Stationer's and Office Supplies	3,374
Misc. Glass Products	3,301

Imports from Canada ($ 000s, 1986):	$464,970

Leading RHODE ISLAND Imports from Canada:

Precious Metals (Including Alloys)	$301,750
Newsprint Paper	$35,965
Softwood Lumber	19,536
Fish Products	12,073
Misc. NonMetal Mineral Basic Products	8,172
Misc. Iron and Steel and Alloys	6,769
Derivative Extracts (Oils, Fats and Waxes)	6,467
Meat, Fresh, Chilled, Frozen	4,928
Ships, Boats, and Parts	3,938
Misc. End Products	3,484

Sources: Statistics Canada, U.S. Department of Commerce, U.S. Department of Labor and the Federal Reserve Bank of Boston.

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THE SOUTH CAROLINA-CANADA TRADING RELATIONSHIP

In 1986, Canada and SOUTH CAROLINA traded over $868 million worth of commodities.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for SOUTH CAROLINA arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, SOUTH CAROLINA consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. SOUTH CAROLINA manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- SOUTH CAROLINA exported $418 million worth of commodities to Canada in 1986.
    - Major exports included the following: transportation equipment; motor vehicle engines, engine parts, and other motor vehicle parts; fabrics; textile fabricated materials: yarn and thread: chemical products; rubber and plastic products; hand tools and cutlery; spinning, weaving, and knitting machinery; and electric lighting.
- SOUTH CAROLINA imported $451 million worth of commodities from Canada in 1986.
    - Major imports included the following: softwood lumber; wood and similar pulp; newsprint paper; organic and inorganic chemicals; synthetic rubber and plastics products; construction machinery and equipment; various transportation equipment; motor vehicle engines, engine parts, and other motor vehicle parts; materials handling machinery and equipment; and metal fabricated basic products.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
    - SOUTH CAROLINA service industry establishments recorded over $3.6 billion in revenues in 1982.
    - Major service industry employers include hotels and other lodging places, business services, health services, personal services, and social services.

  - In 1986, 312,300 Canadian tourists spent $48 million in SOUTH CAROLINA.

- About one out of ten manufacturing jobs in SOUTH CAROLINA is dependent on exports to other countries.
  - $3.6 billion of SOUTH CAROLINA manufacturing shipments are related to exports (1983).
  - In the SOUTH CAROLINA manufacturing sector, 34,000 positions are dependent on exports (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- One of the leading American export prospects to Canada in 1988, according to the U.S. Foreign Commercial Service in that country, is among SOUTH CAROLINA'S top export items. 1986 sales to Canada of various motor vehicle components totalled over $35 million. In addition, the state sold over $38 million in other transportation equipment to Canada. Over 5,700 SOUTH CAROLINIANS are employed in the manufacture of transportation equipment.
  - SOUTH CAROLINA's auto sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment within its borders by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.
  - After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.
  - The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and

drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

- With the expansion of government procurement opportunities through the FTA, SOUTH CAROLINA firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

- Investment by Canadian companies in SOUTH CAROLINA is estimated in the hundreds of millions of dollars Employment generated by Canadian investments is over 7,800.

    - The FTA encourages additional SOUTH CAROLINA investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both SOUTH CAROLINA and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

- In 1986, SOUTH CAROLINA exported over $77 million in man-made fiber yarn and thread, man-made fabrics, coated and impregnated fabrics, and other textile fabricated materials. Over 98,000 SOUTH CAROLINIANS are employed in the manufacture of textile mill products, making this the state's largest manufacturing industry.

    - SOUTH CAROLINA's exports of these products are encouraged by the staged elimination of Canadian duties on textile products. By 1998, duties on these goods will be eliminated.

    - SOUTH CAROLINA textile manufacturers are protected against third-country imports through the Free Trade Agreement by the rule of origin and by specified limits on the quantity of offshore textile materials that can be used in Canadian textile products sold to the United States.

- SOUTH CAROLINA conducts millions of dollars worth of services trade with Canada each year. Over 306,000 SOUTH CAROLINIANS work in the service, finance, insurance and real estate fields.

    - The FTA facilitates the entry of certain SOUTH CAROLINA business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.

- The FTA enhances service trade opportunities for SOUTH CAROLINA businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.
- The FTA covers dozens of services in the agriculture and forestry, mining, construction, distributive trade, insurance and real estate, and commercial service sectors.
- SOUTH CAROLINA firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.
- Future licensing and certification requirements for SOUTH CAROLINA residents providing professional services such as accountants and engineers will be based primarily on competence and ability--not citizenship.

o The FTA specifically continues in force the 1986 U.S.-Canada Memorandum of Understanding on Softwood Lumber and allows measures necessary to enforce it. This agreement concerning Canadian provincial pricing practices for stumpage resolved a subsidy case against imports of Canadian softwood lumber.

STATE STATISTICAL PROFILE: SOUTH CAROLINA

Population (July 1, 1987)	3,425,000
Area	31,113 square miles 80,582 square kilometers
State Personal Income ($ millions, 1986)	$38,153

Nonagricultural Employees- Total and By Industry Groups (in 000s, October 1987)

Total:	1,406
Industry Groups:	
Mining	2
Construction	91
Manufacturing	370
Transportation and Public Utilities	59
Wholesale and Retail Trade	313
Finance, Insurance and Real Estate	65
Other Services	241
Government	266

Manufacturing Sector Employment- Total and Major Groups (1985)

Total:	364,500
Textile Mill Products	98,200
Apparel and Other Textile	43,700
Chemicals and Allied Prods.	33,300
Machinery, Except Electrical	29,100
Electric and Electronic Eq.	23,800

Service Sector Employment- Total and Major Groups (1985)*

Total:	254,000
Health Services	51,500
Business Services	37,100
Hotels and Other Lodging Place	17,100
Membership Organizations	17,100
Personal Services	13,500

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in SOUTH CAROLINA

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$5,937

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	314
Canada	32

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986): $417,683**

Leading SOUTH CAROLINA Exports to Canada:

Transportation Equipment	$38,073
Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	35,577
Coated or Impregnated Fabrics	26,400
Textile Fabricated Materials	24,639
Man-Made Fiber Yarn and Thread	17,286
Various Chemical Products	13,940
Rubber and Plastic Products	13,897
Hand Tools and Cutlery	11,404
Spinning, Weaving, and Knitting Mach.	10,557
Special Industry Machinery	9,844

Imports from Canada ($ 000s, 1986): $450,782

Leading SOUTH CAROLINA Imports from Canada:

Transportation Equipment	$227,935
Lumber, Softwood	40,243
Synthetic Rubber and Plastics	13,297
Organic and Misc. Inorganic Chem.s	11,370
Wood and Similar Pulp	10,040
Newsprint Paper	8,349
Construction Machinery and Equipment	7,310
Steel Bars and Rods	6,992
Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	6,917
Metal Fabricated Basic Products	6,777

** It is likely that exports from the State of SOUTH CAROLINA to Canada are underestimated. Approximately one out of every seven dollars worth of U.S. exports to Canada cannot be assigned to a state. Most of these exports are automotive products, which are among SOUTH CAROLINA's leading exports to Canada.

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

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THE SOUTH DAKOTA-CANADA TRADING RELATIONSHIP

In 1986, Canada and SOUTH DAKOTA traded over $77.6 million worth of commodities.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for SOUTH DAKOTA arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, SOUTH DAKOTA consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. SOUTH DAKOTA manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- SOUTH DAKOTA exported $25.6 million worth of commodities to Canada in 1986.
    - Major exports included miscellaneous equipment and tools; precious metals, including alloys; corn (maize) shelled; other agricultural machinery and equipment; construction and maintenance machinery; other inedible end products; motor vehicle engines; hoisting machinery; other haying and harvesting machinery; and new wheel tractors.
- SOUTH DAKOTA imported $52.1 million worth of commodities from Canada in 1986.
    - Major imports included live animals; newsprint paper; synthetic rubber and plastics materials; fertilizers and fertilizer materials; other agricultural machinery and equipment; lumber, softwood; soil preparation, seeding and fertilizing equipment; seeds for sowing; meat, fresh, chilled or frozen; and various inorganic chemicals.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
    - On a national per capita basis, SOUTH DAKOTA's 709,000 residents would be expected to account for $74.0 million of this trade.
    - SOUTH DAKOTA service industry establishments recorded over $828 million in revenues in 1982.

  - Major service industry employers include health, hotels and lodging places, membership organizations, social, and business services.
  - In 1986, over 85,000 Canadian tourists spent $5 million in SOUTH DAKOTA.

- More than one out of nineteen SOUTH DAKOTANS working in the manufacturing sector hold export-related jobs.
  - $200 million of SOUTH DAKOTA manufacturing shipments are related to exports (1983).
  - In the SOUTH DAKOTA manufacturing sector, about 1,000 positions are dependent on exports (1983).
  - A 1984 report showed that 115 SOUTH DAKOTA firms export 214 different products to 63 countries. Another 104 firms which produce 254 products are not exporting, but are interested in doing so.

IMPACT OF THE FREE TRADE AGREEMENT

- In 1986, SOUTH DAKOTA exported to Canada over $1 million in construction and maintenance machinery, and over $1 million in motor vehicle engines. These goods are among the top U.S. export prospects to Canada in 1988. Over 4,500 SOUTH DAKOTANS are employed in the industry which manufactures machinery, and over 500 in the transportation equipment manufacturing industry.
  - SOUTH DAKOTA exporters of construction and maintenance machinery stand to profit from the staged elimination of duties on this equipment by no later than January 1, 1998.
  - SOUTH DAKOTA motor vehicle engine producers will have increased sales opportunities in the Canadian market as a result of the staged elimination of Canada's restriction on the importation of used American automobiles.
  - SOUTH DAKOTA's auto sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.

- After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.

- The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

o SOUTH DAKOTA imported over $14 million in live animals, nearly $5 million in fertilizers and fertilizer material, $3 million in agricultural machinery and equipment, $2 million in soil preparation, seeding and fertilizing machines, and over $1 million in seeds for sowing in 1986. This represents approximately 48% of the state's import expenditures from Canada.

  - The FTA ensures that these products continue to enter the United States duty free in the years ahead. This will provide some security to those working on SOUTH DAKOTA's 36,000 farms, many of which depend on fertilizer to grow agricultural commodities.

o With the expansion of government procurement opportunities through the FTA, SOUTH DAKOTA firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

o Investment by Canadian companies in SOUTH DAKOTA is in the tens of millions. Employment generated by Canadian investments is over 600.

  - The FTA encourages additional SOUTH DAKOTA investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both SOUTH DAKOTA and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

- SOUTH DAKOTA conducts millions of dollars worth of services trade with Canada each year. Over 76,000 SOUTH DAKOTANS work in the service, finance, insurance and real estate fields.
  - The FTA facilitates the entry of certain SOUTH DAKOTA business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.
  - The FTA enhances service trade opportunities for SOUTH DAKOTA businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.
  - The FTA covers dozens of services in the agriculture and forestry, mining, construction, distributive trade, insurance and real estate, and commercial service sectors.
  - SOUTH DAKOTA firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.
  - Future licensing and certification requirements for SOUTH DAKOTA residents providing professional services (such as accountants and engineers) will be based primarily on competence and ability--not citizenship.

STATE STATISTICAL PROFILE: SOUTH DAKOTA

Population (July 1, 1987)	709,000
Area	77,116 square miles 199,730 square kilometers
State Personal Income ($ millions, 1986)	8,364

Nonagricultural Employees- Total and By Industry Groups
(in 000s, October 1987)

Total:	259
Industry Groups:	
Mining	2
Construction	11
Manufacturing	30
Transportation and Public Utilities	13
Wholesale and Retail Trade	67
Finance, Insurance and Real Estate	14
Services	62
Government	60

Manufacturing Sector Employment- Total and Major Groups
(1985)

Total:	27,100
Food and Kindred Products	7,400
Machinery, Except Electrical	4,600
Printing and Publishing	2,600
Electric & Electronic Equip.	2,600
Instruments & Related Products	1,000-2,499

Service Sector Employment- Total and Major Groups
(1985)*

Total:	66,100
Health Services	22,000
Banking	7,700
Hotels and Lodging Places	4,600
Membership Organizations	4,400
Social Services	4,000

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in SOUTH DAKOTA

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$ 390

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	117
Canada	31

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986):	$25,598

Leading SOUTH DAKOTA Exports to Canada:

Equipment and Tools	$2,123
Precious Metals, Including Alloys	1,802
Shelled Corn (Maize)	1,675
Agriculture Machinery and Equip.	1,489
Construction and Maintenance Mach.	1,172
Inedible End Products	1,146
Motor Vehicle Engines	1,125
Hoisting Machinery	1,106
Haying & Harvesting Machinery	998
New Wheel Tractors	751

Imports from Canada ($ 000s, 1986):	$52,063

Leading SOUTH DAKOTA Imports from Canada:

Live Animals	$14,463
Newsprint Paper	5,348
Synthetic Rubber & Plastics Mater.	4,787
Fertilizers & Fertilizer Material	4,383
Agriculture Machinery & Equipment	3,128
Lumber, Softwood	2,083
Soil Preparation, Seeding and Fertilizing Machines	2,044
Seeds for Sowing	1,334
Meat, Fresh, Chilled or Frozen	1,302
Inorganic Chemicals	787

Sources: Statistics Canada, U.S. Department of Commerce, U.S. Department of Labor, the Bureau of Intergovernmental Relations and the SOUTH DAKOTA Office of Economic Development.

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT

FOR TENNESSEE

Prepared by

The Office of Canada
International Trade Administration
U.S. Department of Commerce (Room 3033)
Washington, D.C. 20230
(202) 377-3101

March 7, 1988

The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE TENNESSEE-CANADA TRADING RELATIONSHIP

In 1986, Canada and TENNESSEE traded over $1.2 billion worth of commodities. The United States tends to run a goods trade deficit with Canada. TENNESSEE, however, exports about one-quarter more to Canada than it imports from that country.

Trade liberalizing accords, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increase their sales to each other. The opportunities for TENNESSEE arise through the United States-Canada Free Trade Agreement's phaseout of Canada's tariffs, on average the highest in the industrialized world, the elimination of various non-tariff barriers, and generally improved access to the Canadian market.

Through the FTA, TENNESSEE consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. The state's manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- TENNESSEE exported $693 million worth of commodities to Canada in 1986.
    - Major exports included organic and inorganic chemicals; rubber and plastic products; miscellaneous equipment and tools; television radio sets and phonographs; books and pamphlets; air conditioning and refrigeration equipment; trucks and chassis; and medical instruments.
- TENNESSEE imported $556 million worth of commodities from Canada in 1986.
    - Major imports included natural gas; newsprint paper; motor vehicle parts; telecommunication equipment; softwood lumber; paper; wood pulp; aluminum; transportation equipment; and rubber and plastic materials.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
    - On a national per capita basis, TENNESSEE'S 4.9 million residents would be expected to account for $507 million of this trade.
    - TENNESSEE service industry establishments recorded over $7.1 billion in revenues in 1982.

  - Major service industry employers include hotels and other lodging places, business services, health services, banking services, and membership organizations.

  - In 1986, 231,500 Canadian tourists spent $16 million in TENNESSEE.

- About one out of twelve TENNESSEE workers employed in the manufacturing sector hold export-related positions.

  - $4.8 billion of TENNESSEE manufacturing shipments are related to exports (1983).

  - In the TENNESSEE manufacturing sector, 38,000 positions are dependent on exports (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- Three of the leading American export prospects to Canada in 1988, according to the U.S. Foreign Commercial Service in that country, are among TENNESSEE's top export items. 1986 sales to Canada of these products--motor vehicle engines; trucks and chassis; and air conditioning and refrigeration equipment--were $225 million; $12 million and $17.7 million, respectively. Over 32,000 TENNESSEE workers are employed in the transportation equipment industry, which produces motor vehicles. Another 36,000 work in the manufacture of electric machinery.

  - TENNESSEE auto parts producers will benefit from the phaseout of Canadian import restrictions on used motor vehicles and the staged elimination of duties on replacement parts by 1993.

  - TENNESSEE's auto sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.

  - After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.

  - The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

  - The Canadian duty on electric machinery will end by 1998, increasing the price competitiveness of TENNESSEE's air conditioning and refrigeration equipment.

- With the expansion of government procurement opportunities through the FTA, TENNESSEE firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

- TENNESSEE imported over $89 million in natural gas in 1986.

  - The Free Trade Agreement provides for free bilateral energy trade, ensuring TENNESSEE nondiscriminatory access to energy supplies. The FTA's energy provisions guarantee that Canada will not restrict exports, impose export taxes or establish export price requirements, subject to very limited national security and short supply exceptions.

- Investment by Canadian companies in TENNESSEE is $1.6 billion. Employment generated by Canadian investments is estimated to be over 12,600.

  - The FTA encourages additional TENNESSE investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both TENNESSE and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

- TENNESSEE conducts over a billion dollars worth of services trade with Canada each year. Over 514,500 TENNESSEEANS work in the service, finance, insurance and real estate fields.

- The FTA facilitates the entry of certain TENNESSEE business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.

- The FTA enhances service trade opportunities for TENNESSEE businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

- The FTA covers a wide range of service sectors, including insurance services, real estate services, management services, business services, hotel management, and tourism services.

- TENNESSEE firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.

- Future licensing and certification requirements for TENNESSEE residents providing professional services (such as accountants and engineers) will be based primarily on competence and ability--not citizenship.

o In 1986, TENNESSEE exported to Canada nearly $226 million in motor vehicle engines and parts; close to $36 million in organic and inorganic chemicals; and over $17 million in air conditioning and refrigeration equipment. These commodities are among the top export prospects to Canada in 1988. Over 32,000 TENNESSEEANS are employed in the industry which manufactures transportation equipment; and over 46,000 in the chemical industry.

  - TENNESSEE exporters' opportunities expand in these fast-growing sectors with the gradual elimination of duties on all of these products.

o In 1986, TENNESSEE imported over $89 million worth of natural gas.

  - The Free Trade Agreement provides for free bilateral energy trade, ensuring TENNESSEE nondiscriminatory access to energy supplies. The FTA's energy provisions guarantee that Canada will not restrict exports, impose export taxes or establish export price requirements, subject to very limited national security and short supply exceptions.

- The FTA specifically continues in force the 1986 U.S.-Canada Memorandum of Understanding on Softwood Lumber and allows measures necessary to enforce it. This agreement concerning Canadian provincial pricing practices for stumpage resolved a subsidy case against imports of Canadian softwood lumber.

STATE STATISTICAL PROFILE: TENNESSEE

Population (July 1, 1987)	4,855,000
Area	42,144 square miles 109,152 square kilometers
State Personal Income ($ millions, 1986)	$57,645

Nonagricultural Employees- Total and By Industry Groups
(in 000s, October 1987)

Total:	2,049
Industry Groups:	
Mining	7
Construction	102
Manufacturing	505
Transportation and Public Utilities	100
Wholesale and Retail Trade	484
Finance, Insurance and Real Estate	98
Services	417
Government	336

Manufacturing Sector Employment- Total and Major Groups
(1985)

Total:	486,200
Apparel and Other Textile Prod	59,600
Chemicals and Allied Products	46,700
Electric and Electronic Equip.	36,300
Food and Kindred Products	35,900
Machinery, Except Electrical	35,300

Service Sector Employment- Total and Major Groups
(1985)*

Total:	452,900
Health Services	117,900
Business Services	66,800
Membership Organizations	31,900
Banking	26,800
Hotels and other Lodging	23,000

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in Tennessee

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$4,621
Canada	1,573

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	413
Canada	56

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986): $693,333**

Leading TENNESSEE Exports to Canada:

Motor Vehicle Engines and Parts	$225,053
Rubber and Plastic Products	40,128
Miscellaneous Equipment and Tools	37,616
Organic and Inorganic Chemicals	35,882
Televisions, Radio Sets, and Phonographs	27,189
Books and Pamphlets	17,935
Air Conditioning and Refrig. Equipment	17,767
Trucks, Truck Tractors and Chassis	12,255
Medical, Opthamalic, Ortho. Supplies	10,343
Electronic Computers	9,702
Various Chemical Products	9,366

Imports from Canada ($ 000s, 1986): $556,077

Leading TENNESSEE Imports from Canada:

Natural Gas	$89,713
Newsprint Paper	60,117
Motor Vehicle Parts, Except Engines	55,973
Telecom. and Related Equipment	37,730
Softwood Lumber	34,416
Misc. Paper for Printing	27,916
Wood Pulp and Similar Pulp	24,015
Aluminum, Including Alloys	24,171
Various Transportation Equipment	14,572
Syn. Rubber and Plastic Materials	9,902

** It is likely that exports from the State of TENNESSEE to Canada are underestimated. Approximately one out of every seven dollars worth of U.S. exports to Canada cannot be assigned to a state. Most of these exports are automotive products, which are among TENNESSEE's leading exports to Canada.

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

UNITED STATES DEPARTMENT OF COMMERCE
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BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT
FOR TEXAS

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Washington, D.C. 20230
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March 7, 1988

The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE TEXAS-CANADA TRADING RELATIONSHIP

In 1986, Canada and TEXAS traded $2.4 billion worth of commodities. The United States as a whole traditionally has a trade deficit with Canada. TEXAS, however, exports 36% more to the Canadian market than it imports.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for TEXAS arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, TEXAS consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. TEXAS manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- o TEXAS exported $1.5 billion worth of commodities to Canada in 1986.
  - Major exports included organic and inorganic chemicals; rubber and plastic products; electronic computers; aircraft engines, engine parts and other aircraft parts; petroleum and coal products; motor vehicle engines and parts; and fuel oil.
- o TEXAS imported $958 million worth of commodities from Canada in 1986.
  - Major imports included telecommunication and related equipment; softwood lumber; aircraft engines, engine parts and other aircraft parts; newsprint paper; motor vehicle engines and parts; organic and inorganic chemicals; and miscellaneous equipment and tools.
- o In 1986, United States-Canada trade in services exceeded $25.4 billion.
  - On a national per capita basis, TEXAS' sixteen million residents could be expected to account for $1.8 billion of this trade.
  - Over 92,000 TEXAS service establishments recorded $34.6 billion in revenues in 1982.
  - Major service industry employers include health services, banking, and business services.

  - In 1986, over 153,000 Canadian tourists spent $41 million in TEXAS.

- Approximately 123,000 TEXAS jobs are related to manufacturing exports to other countries.
  - Export-related manufacturers' shipments totalled $19.3 billion in 1983.
  - Over 12% of TEXAS' manufacturers' shipments are export-related (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- The U.S. Foreign Commercial Service in Canada reports that computers and peripherals are the number one export prospect to that country in 1988. Electronic computers are among the leading TEXAS exports to Canada, with sales of over $112 million in 1986. Over 124,000 TEXAS workers are employed in the machinery industry, which produces a number of computer products.
  - The 3.9% Canadian duty on computers will end on January 1, 1989. The FTA provisions on enhanced telecommunications and computer services ensure further development of an open and competitive Canadian market, including access to and the use of the basic telecommunications network. These changes will make TEXAS exporters of high-tech products more competitive in the Canadian market.
- With the expansion of government procurement opportunities through the FTA, TEXAS firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.
- Among the top export prospects to Canada in 1988 are organic and inorganic industrial chemicals. In 1986, TEXAS exported over $219 million worth of organic and inorganic chemicals and various chemical products. The chemical and allied products manufacturing industry employs over 70,000 TEXANS.
  - The Free Trade Agreement enhances export sales opportunities for TEXAS firms through the staged elimination of duties on chemical products. Some of these commodities will be duty free by January 1, 1993. All chemical products will enter Canada without a tariff by January 1, 1998.

- In 1986, TEXAS exported over $132 million worth of fuel oil and petroleum and coal products to Canada. Over 32,000 TEXANS work in the industry which manufactures petroleum and coal products. During the same year, the state also exported approximately $61 million worth of drilling machinery and drill bits.
  - The Free Trade Agreement provides for free bilateral energy trade, ensuring TEXAS of a secure market for its exports of fuel oil and petroleum and coal products. The FTA's energy provisions guarantee that Canada will not restrict imports, impose import taxes or establish minimum import price requirements, subject to very limited national security and short supply exceptions. Greater security for bilateral energy trade may help to increase sales for those TEXAS firms which manufacture drilling equipment.
- Two of the leading American export prospects to Canada in 1988, according to the U.S. Foreign Commercial Service in that country, are among TEXAS' leading exports. Total 1986 exports to Canada of these products--motor vehicle components and aircraft engines, engine parts, and other aircraft parts--topped $144 million. The TEXAS transportation equipment manufacturing industry employs over 62,000 workers.
  - TEXAS motor vehicle and aircraft component producers stand to profit from the staged elimination of the Canadian restrictions on the importation of used American aircraft and used American automobiles.
  - TEXAS' auto sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.
  - After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.

  - The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

- Investment by Canadian companies in TEXAS is $9.8 billion. Employment generated by Canadian investments is estimated to be over 36,000.

  - The FTA encourages additional Canadian investment in TEXAS by creating an open, stable and predictable business environment where new discriminatory barriers to such investment will not be erected.

- TEXAS conducts hundreds of millions of dollars worth of services trade with Canada each year. Over 783,000 employees work in the service, finance, insurance and real estate fields.

  - The FTA facilitates the entry of certain TEXAS business professionals and after sales service personnel traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise without the customs delays that now exist.

  - The FTA enhances service trade opportunities for TEXAS businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

  - The FTA covers a wide range of service sectors, including real estate agency, health care facilities management, management services, and tourism.

  - TEXAS firms will be assured the right of establishment, the right to sell across the border, and greater transparency in Canadian services regulations.

  - Future licensing and certification requirements for TEXAS residents providing certain professional services such as accountants and engineers will be based primarily on competence and ability--not citizenship.

- Future licensing and certification requirements for TEXAS residents providing certain professional services such as accountants and engineers will be based primarily on competence and ability--not citizenship.

STATE STATISTICAL PROFILE: TEXAS

Population (July 1, 1987)	16,789,000
Area	266,807 square miles 691,030 square kilometers

State Personal Income ($ millions, 1986)

Total:	$224,900

Nonfarm Employees- Total and Selected Industry Groups (1985)

Total:	5,625,104

Selected Industry Groups:

Agricultural Services, Forestry and Fish	29,172
Mining	246,579
Contract Construction	469,457
Manufacturing	1,002,470
Transportation and Public Utilities	360,538
Wholesale Trade	436,860
Retail Trade	1,231,475
Finance, Insurance and Real Estate	430,524
Other Services	1,332,521

Manufacturing Sector Employment- Total and Major Groups (1985)

Total:	955,400
Machinery (Except Electrical)	124,303
Electric & Electronic Eq.	114,732
Food and Kindred Products	87,510
Fabricated Metal Products	85,274
Printing & Publishing	71,754

Service Sector Employment- Total and Major Groups (1985)*

Total:	1,763,045
Health Services	353,015
Business Services	295,943
Banking	105,007
Miscellaneous Services	104,161
Real Estate	104,019

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in TEXAS

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$37,883
Canada	9,833

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	2,024
Canada	312

Major Commodity Trade With Canada

Exports to Canada ($ 000's, 1986):	$1,491,456

Leading TEXAS Exports to Canada:

Organic & Inorganic Chemicals	$159,458
Rubber and Plastic Products	145,103
Electronic Computers	112,099
Aircraft Engines & Parts	76,365
Petroleum & Coal Products	70,414
Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	68,134
Fuel Oil	62,435
Drilling Machinery & Drill Bits	60,952
Chemical Products	59,709
Measuring, Lab. Equipment	51,559

Imports from Canada ($ 000's, 1986):	$957,529

Leading TEXAS Imports from Canada:

Telecommunication & Related Equip.	$87,694
Softwood Lumber	81,701
Aircraft Engines and Parts	75,603
Newsprint Paper	75,256
Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	65,761
Organic & Inorganic Chemicals	65,238
Misc. Equipment & Tools	43,619
Office Machines & Equipment	29,689
Transportation Equipment	26,725
Metal Fabricated Basic Products	23,016

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

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THE UTAH-CANADA TRADING RELATIONSHIP

In 1986, Canada and UTAH traded over $399 million worth of commodities. The United States traditionally runs a trade deficit with Canada. UTAH, however, sells to Canada more than two-and-a-half times as much as it buys from that country.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for UTAH arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, UTAH consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. UTAH manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- UTAH exported $293.5 million worth of commodities to Canada in 1986.
  - Major exports included precious metals (including alloys); electronic computers; phosphate rock; non-ferrous metals and alloys; telecommunications and related equipment; miscellaneous inedible end products; oil and gas mining machinery; and miscellaneous motor vehicles.
- UTAH imported $105.8 million worth of commodities from Canada in 1986.
  - Major imports included live animals; petroleum and coal products; aircraft engines and parts; newsprint paper; motor vehicle engines, engine parts and other motor vehicle parts; inorganic and organic chemicals; excavating and mining machinery; fertilizers and fertilizer material; and telecommunications and related equipment.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
  - UTAH service industry establishments recorded over $2.4 billion in revenues in 1982.
  - Major service industry employers include health, business, membership organizations, hotels and lodging places, and personal services.

  - In 1986, approximately 87,000 Canadian tourists spent $9 million in UTAH.

- More than one out of nine positions in the UTAH manufacturing sector are related to exports to other countries.
  - $1.0 billion of UTAH manufacturing shipments are related to exports (1983).
  - 10,000 UTAH manufacturing jobs are dependent on exports (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- Two of the leading American export prospect to Canada in 1988, according to the U.S. Foreign Commercial Service in that country, are among UTAH's top export items. 1986 sales to Canada of electronic computers and miscellaneous telecommunications and related equipment--topped $26 million. Over 12,000 UTAHANS are employed in the machinery industry, which produces many computer goods. Another 10,000 work in the manufacture of electric and electronic equipment.
  - UTAH's sales to the fast-growing Canadian high-technology market can be expected to increase under the Free Trade Agreement. The FTA eliminates the 3.9% duty on computers on January 1, 1989, and phases out tariffs on telecommunications, and all other products, no later than January 1, 1998.
  - The FTA also contains provisions on enhanced telecommunications and computer services which ensure further development of an open and competitive Canadian market, including access to and the use of the basic telecommunications network.
- With the expansion of government procurement opportunities through the FTA, UTAH firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.
- UTAH imported over $12.1 million in petroleum and coal products in 1986. These energy products constitute one of the leading UTAH purchases from Canada.
  - The Free Trade Agreement provides for free bilateral energy trade, ensuring UTAH nondiscriminatory access to energy supplies. The FTA's energy provisions guarantee that Canada will not restrict exports, impose export taxes or establish export price requirements, subject to very limited national security and short supply exceptions.

- UTAH exported over $4.4 million worth of trucks, truck tractors, chassis, miscellaneous motor vehicles, and various motor vehicle components to Canada during 1986.
  - UTAH motor vehicle and motor vehicle component producers stand to gain from the staged elimination of the Canadian restriction on the importation of used American motor vehicles.
  - UTAH's transportation equipment sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.
  - After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.
  - The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.
- Investment by Canadian companies in UTAH is $518 million. Employment generated by Canadian investments is estimated to be in the hundreds.
  - The FTA encourages additional UTAH investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both UTAH and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

- UTAH conducts millions of dollars worth of services trade with Canada each year. Over 182,000 UTAH workers are employed in the service, finance, insurance and real estate fields.
    - The FTA facilitates the entry of certain UTAH business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.
    - The FTA enhances service trade opportunities for UTAH businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.
    - The FTA covers dozens of services in the agriculture and forestry, mining; construction, distributive trade, insurance and real estate, and commercial service sectors.
    - UTAH firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.
    - Future licensing and certification requirements for UTAH residents providing professional services such as accountants and engineers will be based primarily on competence and ability--not citizenship.
- In 1986, UTAH imported $3.5 million worth of fertilizer and fertilizer material.
    - The FTA ensures that these products continue to enter the United States duty free in the years ahead. This will provide additional security to those working on UTAH's farms, many of which depend on fertilizer to grow agricultural commodities.

STATE STATISTICAL PROFILE: UTAH

Population (July 1, 1987)	1,680,000
Area	84,899 square miles 219,889 square kilometers
State Personal Income ($ millions, 1986)	18,288

Nonagricultural Employees- Total and By Industry Groups
(in 000s, October 1987)

Total:	648
Industry Groups:	
Mining	8
Construction	27
Manufacturing	94
Transportation and Public Utilities	38
Wholesale and Retail Trade	156
Finance, Insurance and Real Estate	34
Other Services	149
Government	142

Manufacturing Sector Employment- Total and Major Groups
(1985)

Total:	95,000
Transportation Equipment	14,100
Machinery, Except Electrical	12,400
Electric and Electronic Equip	10,200
Food and Kindred Products	8,500
Primary Metal Industries	7,000

Service Sector Employment- Total and Major Groups
(1985)*

Total:	160,400
Health Services	33,300
Business Services	20,300
Membership Organizations	15,100
Hotels and Lodging Places	9,700
Real Estate	8,000

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in UTAH

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$2,847
Canada	518

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	220
Canada	57

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986):	$293,543

Leading UTAH Exports to Canada:

Precious Metals Including Alloys	$184,523
Electronic Computers	23,271
Phosphate Rock	9,835
Non-ferrous Metals & Alloys	6,249
Telecommunications and Related Equipment	3,520
Various Inedible End Products	3,509
Mining, Oil and Gas Machinery	3,486
Medical, Opthalmic, Ortho. Suppl.	3,270
Other Measuring Lab Equipment, Etc	2,777
Various Motor Vehicles	2,799

Imports from Canada ($ 000s, 1986):	$105,837

Leading UTAH Imports from Canada:

Live Animals	$13,245
Petroleum and Coal Products	12,137
Aircraft Engines, Engine Parts, and Other Aircraft Parts	7,068
Newsprint Paper	6,691
Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	6,401
Chemicals (Inorganic and Organic)	4,716
Drilling, Excavating, and Mining Machinery	3,569
Fertilizers & Fertilizer Material	3,495
Telecommunications and Related Equipment	3,197
Various Equipment and Tools	3,097

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT
FOR VERMONT

Prepared by

The Office of Canada
International Trade Administration
U.S. Department of Commerce (Room 3033)
Washington, D.C. 20230
(202) 377-3101

March 7, 1988

The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE VERMONT-CANADA TRADING RELATIONSHIP

In 1986, Canada and VERMONT traded $992 million worth of commodities.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for VERMONT arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, VERMONT's consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. VERMONT's manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- VERMONT exported $190 million worth of commodities to Canada in 1986.
  - Major exports included electronic tubes and semiconductors; aircraft engines, engine parts and other aircraft parts; lumber; paper and paperboard; inedible end products; and pigments, lakes and toners.
- VERMONT imported $802 million worth of commodities from Canada in 1986.
  - Major imports included railway and street railway rolling stock; trucks, truck tractors and chassis; telecommunications and related equipment; passenger autos and chassis; softwood lumber; and electricity.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
  - On a national per capita basis, VERMONT's half-million residents could be expected to account for $50.8 million of this trade. Given the state's geographic location on the Canadian border, however, it is possible that this figure is much higher.
  - Almost 4,000 VERMONT service establishments recorded $806 million in revenues in 1982.

  - Major service industry employers include health services, hotels and other lodging places, and education services.

  - In 1986, 550,300 Canadian tourists spent $34 million in VERMONT.

- Approximately 7,000 VERMONT jobs are maintained by export-related manufacturing.

  - Export-related manufacturers' shipments totalled $600 million in 1983.

  - Over 15% of VERMONT's manufacturers' shipments are export-related (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- Three of VERMONT's leading exports to Canada include electronic tubes and semiconductors; paper and paperboard; and aircraft engines and parts. Together, these products account for $99 million of the state's exports to Canada. Over 28,000 persons are employed in VERMONT's transportation equipment, paper and electronic manufacturing industries.

  - The Free Trade Agreement will allow VERMONT to increase its exports of these products by the phasing out of tariffs that now restrict the entry of such goods into Canada.

- In 1986, VERMONT exported nearly over $19 million of aircraft engines, engine parts, and other aircraft parts. The U.S. Foreign Commercial Service in Canada rates aircraft parts among the best U.S. export prospects to Canada in 1988. Nearly 3,000 VERMONTERS are employed in the manufacture of transportation equipment.

  - The FTA eliminates current import restrictions on used aircraft in Canada, which should contribute to an increased demand for aircraft parts. This should contribute to an increased demand for aircraft parts.

- One of VERMONT's major exports to Canada is that of paper and paperboard ($4 million in 1986).

  - For those VERMONT manufacturers who produce paper and paperboard, the FTA will provide opportunities to increase export income through tariff elimination and Canada's increased emphasis on the development of their cultural industries, including publishing.

- One of VERMONT's major imports from Canada is electricity. In 1986, the state imported $2.7 million worth of this commodity.
  - The Free Trade Agreement provides for free bilateral energy trade, ensuring VERMONT nondiscriminatory access to energy supplies. The FTA's energy provisions guarantee that Canada will not restrict exports, impose export taxes or establish export price requirements, subject to very limited national security and short supply exceptions.
- Investment by Canadian companies in VERMONT is $90 million. Employment generated by Canadian investments is approximately 2,000.
  - The FTA encourages additional VERMONT investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both VERMONT and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.
- VERMONT conducts millions of dollars worth of services trade with Canada each year. Over 38,000 employees work in the service, finance, insurance and real estate fields.
  - The FTA facilitates the entry of certain VERMONT business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise without the customs delays that now exist.
  - The FTA enhances service trade opportunities for VERMONT businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.
  - The FTA covers a wide range of service sectors, including construction, metal mining, hotel reservation, credit bureau, real estate, oil and gas field, tourism and management services.
  - VERMONT firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.
  - Future licensing and certification requirements for VERMONT residents providing professional services (such as accountants and engineers) will be based primarily on competence and ability--not citizenship.

- The Free Trade Agreement assures retransmission rights for American broadcasters. Specifically, Canada's copyright law will provide each U.S. copyright holder with a right of equitable and non-discriminatory remuneration for any retransmission to the public of the copyrighter's programs (where the original transmission of the programs are carried in distant signals intended for free, over-the-air reception by the general public).

- The FTA specifically continues in force the 1986 U.S.-Canada Memorandum of Understanding on Softwood Lumber and allows measures necessary to enforce it. This agreement concerning Canadian provincial pricing practices for stumpage resolved a subsidy case against imports of Canadian softwood lumber.

- With the expansion of government procurement opportunities through the FTA, VERMONT firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

STATE STATISTICAL PROFILE: VERMONT

Population (July 1, 1987)	548,000
Area	9,614 square miles 24,900 square kilometers

Gross State Product (in millions, 1985)

Total:	$7,535

Nonfarm Employees- Total and Selected Industry Groups (1985)

Total:	182,300
Selected Industry Groups:	
Agricultural Services, Forestry and Fish	900
Mining	800
Contract Construction	10,800
Manufacturing	48,300
Transportation and Public Utilities	8,400
Wholesale Trade	9,100
Retail Trade	40,200
Finance, Insurance and Real Estate	9,700
Other Services	51,200

Manufacturing Sector Employment- Total and Major Groups (1985)

Total:	48,300
Machinery (Except Electrical)	5,600
Printing and Publishing	4,400
Fabricated Metal Products	4,100
Lumber and Wood Products	3,600
Food and Kindred Products	2,400

Service Sector Employment- Total and Major Groups (1985)*

Total:	60,900
Health Services	15,300
Hotels and Other Lodging Places	6,700
Educational Services	6,300
Amusement & Recreational Ser.	4,800
Business Services	5,600

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in VERMONT

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$451
Canada	90

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	128
Canada	39

Major Commodity Trade With Canada

Exports to Canada ($ 000's, 1986): $190,381

Leading VERMONT Exports to Canada:

Electronic Tubes & Semiconductors	$80,858
Aircraft Engines and Parts	13,656
Lumber	10,186
Crude Non Metallic Minerals	5,201
Aircraft Parts, Except Engines	4,659
Paper and Paperboard	4,487
Inedible End Products	3,499
Pigments, Lakes and Toners	3,322
Crude Wood Materials	3,251
Miscellaneous Equipment & Tools	3,008

Imports from Canada ($ 000's, 1986): $802,017

Leading VERMONT Imports from Canada:

Railway & Street Railway Rolling Stock	$137,735
Trucks, Truck Tractors & Chassis	109,279
Misc. Telecommunications & Related Eq.	76,875
Passenger Autos and Chassis	75,090
Electricity	74,467
Softwood Lumber	60,240
Foods and Materials for Foods	22,510
Wood Pulp & Similar Pulp	15,113
Natural Gas	13,872
Toys, Games, Sporting & Rec. Equip	12,049

Sources: Statistics Canada, U.S. Department of Commerce, U.S. Department of Labor and the Federal Reserve Bank of Boston.

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BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT FOR VIRGINIA

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THE VIRGINIA-CANADA TRADING RELATIONSHIP

In 1986, Canada and VIRGINIA traded over $1.2 billion worth of commodities.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for VIRGINIA arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, VIRGINIA consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. VIRGINIA manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- VIRGINIA exported $427 million worth of commodities to Canada in 1986.
  - Major exports included the following: motor vehicle engines, engine parts and other motor vehicle parts; telecommunications and related equipment; rubber and plastic products; paper and paperboard; electronic computers; miscellaneous equipment and tools, chemicals; aircraft engines, engine parts and other aircraft parts; yarn and thread; and metal fabricated basic products.
- VIRGINIA imported $751 million worth of commodities from Canada in 1986.
  - Major imports included the following: newsprint paper; telecommunications and related equipment; motor vehicle parts; lumber and softwood; various equipment and tools; ships, boats and parts; rubber and plastic materials; aluminum; meat; and inorganic chemicals.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
  - VIRGINIA service industry establishments recorded over $10.7 billion in revenues in 1982.
  - Major service industry employers include hotels and other lodging places, business services, health services, personal services, and social services.

  - In 1986, over 338,000 Canadian tourists spent $32 million in VIRGINIA.

- o Nearly one out of eleven VIRGINIANS working in the manufacturing sector hold export-related positions.

  - $4.4 billion of VIRGINIA manufacturing shipments are related to exports (1983).

  - In the VIRGINIA manufacturing sector, 36,000 positions are dependent on exports (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- o The two leading American export prospects to Canada in 1988, according to the U.S. Foreign Commercial Service in that country, are among VIRGINIA's top export items. 1986 sales to Canada of these products--various motor vehicle components and electronic computers--were $55.3 million and $16.7 million, respectively. Over 20,000 VIRGINIANS are employed in the machinery industry, which produces many computer goods. Another 41,000 work in the manufacture of transportation equipment.

  - VIRGINIA automobile engine and parts producers stand to gain from the staged elimination of the Canadian restriction on the importation of used American motor vehicles.

  - VIRGINIA's auto sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.

  - After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.

  - The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

  - The 3.9% Canadian duty on computers will end on January 1, 1989, increasing the price competitiveness of VIRGINIA's electronic computer exports.

- With the expansion of government procurement opportunities through the FTA, VIRGINIA firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

- Investment by Canadian companies in VIRGINIA is $1.8 billion. Employment generated by Canadian investments is estimated to be over 19,000.

  - The FTA encourages additional VIRGINIA investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both VIRGINIA and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

- VIRGINIA conducts millions of dollars worth of services trade with Canada each year. Over 749,000 VIRGINIANS work in the service, finance, insurance and real estate fields.

  - The FTA facilitates the entry of certain VIRGINIA business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after-sales service with more certainty and less delay at the border.

  - The FTA enhances service trade opportunities for VIRGINIA businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

  - The FTA covers dozens of services in the agriculture and forestry, mining, construction, distributive trade, insurance and real estate, and commercial service sectors.

  - VIRGINIA firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.
  - Future licensing and certification requirements for VIRGINIA residents providing professional services such as accountants and engineers will be based primarily on competence and ability--not citizenship.

- In 1986, VIRGINIA exported to Canada $12.6 million in miscellaneous chemical products and close to $29.3 million in various telecommunications and related equipment. According to the U.S. Foreign Commercial Service, these commodities are among the top export prospects to Canada in 1988. About 36,000 VIRGINIANS are employed in the industry which manufactures chemicals and over 44,000 in the electric and electronic equipment and the instruments and related products industries.
  - VIRGINIA's opportunities expand in these fast-growing sectors with the gradual elimination of duties on all of these products by January 1, 1998. In addition, FTA provisions on enhanced telecommunications and computer services ensure further development of an open and competitive Canadian market, including access to and the use of the basic telecommunications network.

- In 1986, VIRGINIA imported nearly $142 million worth newsprint paper.
  - The Free Trade Agreement ensures that newsprint in rolls continues to enter the United States duty free in the years ahead. This will provide additional security to those working on VIRGINIA's newspapers, including its 37 dailies.

- The FTA specifically continues in force the 1986 U.S.-Canada Memorandum of Understanding on Softwood Lumber and allows measures necessary to enforce it. This agreement concerning Canadian provincial pricing practices for stumpage resolved a subsidy case against imports of Canadian softwood lumber.

STATE STATISTICAL PROFILE: VIRGINIA

Population (July 1, 1987) 5,904,000

Area 40,767 square miles
105,586 square kilometers

State Personal Income ($ millions, 1986)
$89,169

Nonagricultural Employees- Total and By Industry Groups
(in 000s, October 1987)

Total:	2,669

Industry Groups:

Mining	16
Construction	176
Manufacturing	427
Transportation and Public Utilities	142
Wholesale and Retail Trade	614
Finance, Insurance and Real Estate	138
Other Services	611
Government	545

Manufacturing Sector Employment- Total and Major Groups
(1985)

Total:	420,800
Transportation Equipment	41,500
Electric and Electronic Eq.	39,600
Textile Mill Products	36,400
Chemicals and Allied Prods.	36,000
Food and Kindred Products	35,900

Service Sector Employment- Total and Major Groups
(1985)*

Total:	617,300
Health Services	123,700
Business Services	117,000
Miscellaneous Services	44,100
Membership Organizations	37,600
Hotels and Other Lodging Place	32,200

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in VIRGINIA

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):	
All countries	$5,103
Canada	1,848

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)	
All countries	557
Canada	57

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986): $426,924**

Leading VIRGINIA Exports to Canada:

Motor Vehicle Engines, Engine Parts, and other Motor Vehicle Parts	$55,334
Various Telecom. and Related Equip.	29,325
Rubber and Plastic Products	21,344
Paper and Paperboard	19,595
Electronic Computers	16,680
Miscellaneous Equipment and Tools	13,053
Chemicals (Organic and Inorganic)	12,550
Aircraft Engines, Engine Parts, and Other Aircraft Parts	10,513
Yarn and Thread	8,929
Metal Fabricated Basic Products	8,590

Imports from Canada ($ 000s, 1986): $750,721

Leading VIRGINIA Imports from Canada:

Newsprint Paper	$141,965
Various Telecom. and Related Eq.	117,504
Motor Vehicle Parts Except Engines	75,534
Lumber, Softwood	68,969
Various Equipment and Tools	33,902
Ships, Boats, and Parts	17,542
Syn. Rubber and Plastic Materials	17,361
Aluminum, Including Alloy	16,577
Meat, Fresh, Chilled, or Frozen	13,567
Inorganic Chemicals	12,117

** It is likely that exports from the State of VIRGINIA to Canada are underestimated. Approximately one out of every seven dollars worth of U.S. exports to Canada cannot be assigned to a state. Most of these exports are automotive products, which are among VIRGINIA's leading exports to Canada.

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT

FOR WASHINGTON

Prepared by

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March 7, 1988

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THE WASHINGTON-CANADA TRADING RELATIONSHIP

In 1986, Canada and WASHINGTON traded over $3.3 billion worth of commodities. After Japan, Canada is WASHINGTON's leading trade partner.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for WASHINGTON arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, WASHINGTON's consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. WASHINGTON's manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- WASHINGTON exported $874 million worth of commodities to Canada in 1986.
    - Major exports included aircraft; aircraft components; fish and marine animals; lumber; fresh fruits and berries; electronic computers; paper and paperboard; containers and closures; motor vehicle components; and chemicals.
- WASHINGTON imported $2.4 billion worth of commodities from Canada in 1986.
    - Major imports included natural gas; lumber and softwood; crude petroleum and petroleum products; trucks, truck tractors and chassis; aircraft and aircraft components; passenger automobiles and chassis; newsprint paper; and live animals.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
    - On a national per capita basis, WASHINGTON's 4.5 million residents would be expected to account for $474 million of this trade. However, given its geographic position on the Canadian border, it is possible that this figure is far higher.
    - WASHINGTON service industry establishments recorded over $8.5 billion in revenues in 1982.

  - Major service industry employers include hotels and other lodging places, business services, health services, personal services, and social services.

  - In 1986, 1.4 million Canadian tourists spent $82 million in WASHINGTON.

- o Nearly one out of five WASHINGTONIANS working in the manufacturing sector held positions related to exports to other countries. Trade is particularly import to the State of WASHINGTON given its international and Pacific Ocean borders. In 1986, $40.9 billion worth of goods were laded or unladed in WASHINGTON.

  - $9.2 billion of Washington manufacturing shipments are related to exports (1983).

  - In the Washington manufacturing sector, 55,000 positions are dependent on exports (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- o The number one export prospect to Canada in 1988, according to the U.S. Foreign Commercial Service in that country, is among WASHINGTON'S top export items. 1986 sales to Canada of electronic computers were $23 million. Over 17,000 WASHINGTONIANS are employed in the machinery industry, which produces many computer goods.

  - WASHINGTON's opportunities will expand in this fast-growing sector with the elimination of the 3.9% Canadian duty on computers on January 1, 1989. In addition, FTA provisions for enhanced telecommunications and computer services ensure further development of an open and competitive Canadian market, including access to and the use of the basic telecommunications network.

- o Canada purchased $141 million worth of aircraft and component parts from WASHINGTON in 1986. Over 68,000 WASHINGTONIANS are employed in the industry which manufactures transportation equipment. Seven percent of the state's total employment stems from aircraft production for foreign markets.

  - The FTA enhances opportunities in the Canadian market for aircraft and aircraft products through the staged elimination of all duties, as well as the phaseout of the Canadian restriction against imports of used aircraft.

- o WASHINGTON exported over $30 million worth of fresh fruits and berries to Canada in 1986.

  - Fresh produce growers on WASHINGTON's 38,000 farms will benefit from the FTA's phaseout of Canadian tariffs, as well as the eventual elimination of temporary duties on fresh fruits.

  - The Canadian and U.S. federal governments have agreed to "work together to improve access to each other's [agricultural] markets through the elimination or reduction of import barriers." This provision of the Agreement improves longer-term prospects for WASHINGTON fruit growers.

o With the expansion of government procurement opportunities through the FTA, WASHINGTON firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

o WASHINGTON imported over $1.2 billion in crude petroleum, natural gas and petroleum and coal products in 1986. This represents 15-20% of the state's energy expenditures.

  - The Free Trade Agreement provides for free bilateral energy trade, ensuring WASHINGTON nondiscriminatory access to energy supplies. The FTA's energy provisions guarantee that Canada will not restrict exports, impose export taxes or establish export price requirements, subject to very limited national security and short supply exceptions.

o Investment by Canadian companies in WASHINGTON is $769 million. Employment generated by Canadian investments is estimated to be over 4,900.

  - The FTA encourages additional WASHINGTON investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both WASHINGTON and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

o WASHINGTON conducts hundreds of millions of dollars worth of services trade with Canada each year. Over 527,000 WASHINGTONIANS work in the service, finance, insurance and real estate fields.

  - The FTA facilitates the entry of certain WASHINGTON business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after sales service with more certainty and less delay at the border.

- The FTA enhances service trade opportunities for WASHINGTON businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

- The FTA covers dozens of services in the agriculture and forestry, mining, construction, distributive trade, insurance and real estate, and commercial service sectors.

- WASHINGTON firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.

- Future licensing and certification requirements for WASHINGTON residents providing professional services (such as accountants and engineers) will be based primarily on competence and ability--not citizenship.

o The Free Trade Agreement assures retransmission rights for American broadcasters. Specifically, Canada's copyright law will provide each U.S. copyright holder with a right of equitable and non-discriminatory remuneration for any retransmission to the public of the copyrighter's programs (where the original transmission of the programs are carried in distant signals intended for free, over-the-air reception by the general public).

o The FTA specifically continues in force the 1986 U.S.-Canada Memorandum of Understanding on Softwood Lumber and allows measures necessary to enforce it. This agreement concerning Canadian provincial pricing practices for stumpage resolved a subsidy case against imports of Canadian softwood lumber.

STATE STATISTICAL PROFILE: WASHINGTON

Population (July 1, 1987)	4,538,000
Area	68,139 square miles 176,479 square kilometers
State Personal Income ($ millions, 1986)	66,978

Nonagricultural Employees- Total and By Industry Groups (in 000s, October 1987)

Total:	1,878
Industry Groups:	
Mining	3
Construction	97
Manufacturing	324
Transportation and Public Utilities	101
Wholesale and Retail Trade	467
Finance, Insurance and Real Estate	107
Other Services	420
Government	359

Manufacturing Sector Employment- Total and Major Groups (1985)

Total:	280,300
Transportation Equipment	68,300
Lumber and Wood Products	32,800
Food and Kindred Products	27,800
Printing and Publishing	17,800
Machinery, Except Electrical	17,200
Miscellaneous Manufacturing	700

Service Sector Employment- Total and Major Groups (1985)*

Total:	461,600
Health Services	117,400
Business Services	56,700
Membership Organizations	29,400
Social Services	26,500
Miscellaneous Services	22,400

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in WASHINGTON

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$3,668
Canada	769

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	509
Canada	155

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986): $873,940

Leading WASHINGTON Exports to Canada:

Aircraft, Complete with Engines	$87,963
Fish and Marine Animals	53,838
Aircraft Engines and Parts	52,942
Lumber	35,224
Other Fresh Fruits and Berries	30,402
Crude Wood Materials	26,003
Electronic Computers	22,803
Paper and Paperboard	21,148
Containers and Closures	18,956
Motor Vehicle Engines, Engine Parts and Other Motor Vehicle Parts	18,579
Chemicals (Inorganic and Organic)	17,989
Mining, Oil and Gas Machinery	4,942

Imports from Canada ($ 000s, 1986): $2,463,943

Leading WASHINGTON Imports from Canada:

Natural Gas	$985,966
Lumber, Softwood	145,795
Crude Petroleum	122,939
Trucks, Truck Tractors and Chassis	117,266
Petroleum and Coal Products	97,286
Aircraft Engines and Parts	85,627
Passenger Automobiles and Chassis	73,219
Newsprint Paper	56,812
Live Animals	51,117
Aircraft, Complete with Engines	34,391

Sources: Statistics Canada, U.S. Department of Commerce, U.S. Department of Labor and the WASHINGTON State Department of Trade and Economic Development.

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BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT FOR WEST VIRGINIA

Prepared by

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THE WEST VIRGINIA-CANADA TRADING RELATIONSHIP

In 1986, Canada and WEST VIRGINIA traded $430 million worth of commodities. While the United States as a whole traditionally has a trade deficit with Canada, WEST VIRGINIA runs a trade surplus with Canada.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for WEST VIRGINIA arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, WEST VIRGINIA consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. WEST VIRGINIA manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- o WEST VIRGINIA exported $256 million worth of commodities to Canada in 1986.
  - Major exports included the following: coal; rubber and plastic products; organic and inorganic chemicals; other chemical products; motor vehicle engines; engine parts and other motor vehicle parts; and aluminum.
- o WEST VIRGINIA imported $174 million worth of commodities from Canada in 1986.
  - Major imports included the following: aluminum; nickel; softwood lumber; newsprint paper; zinc; organic chemicals; synthetic rubber and plastics materials; and other chemical products.
- o In 1986, United States-Canada trade in services exceeded $25.4 billion.
  - Over 8,600 WEST VIRGINIA service establishments recorded $2 billion in revenues in 1982.
  - Major service industry employers include health services, membership organizations, business services, hotel and lodging places, and personal services.
  - In 1986, over 93,000 Canadian tourists spent $5 million in WEST VIRGINIA.

- WEST VIRGINIA's manufacturing sector is somewhat more dependent on exports than is the U.S. as a whole. About 11.8% of the state's manufacturing jobs and 15.3% of WEST VIRGINIAN manufacturing shipments are export-related compared to 11.0% and 11.5% respectively on a national basis.
  - Export-related manufacturers' shipments totalled $1.5 billion in 1983.
  - WEST VIRGINIA's manufacturing sector maintains 11,000 export-related jobs (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- WEST VIRGINIA's number one export to Canada is coal. In 1986, Canada purchased nearly $70 million worth of the state's coal, representing over a quarter of the country's imports from WEST VIRGINIA.
  - Through the Free Trade Agreement, WEST VIRGINIA is assured a secure market for its exports. Energy provisions of the FTA prohibit Canadian restrictions on imports, including quantitative limitations, import taxes, minimum import price requirements or any other equivalent measure, subject to very limited national security and short supply exceptions.
- In 1986, WEST VIRGINIA exported approximately $90 million in chemicals, chemical products, rubber, and plastics. Plastics materials and resins, industrial organic chemicals, and industrial inorganic chemicals are all rated among the top 20 U.S. export prospects in 1988. Employment in the two industries that produce many of these goods tops 18,000.
  - Through the Free Trade Agreement, the highly restrictive duties on primary plastics and most chemical products will be phased out by January 1, 1993. Tariffs on other rubber, plastic, and chemical products will all be eliminated in stages by January 1, 1998. This will make WEST VIRGINIA exporters of these commodities more price competitive in the Canadian market.
- With the expansion of government procurement opportunities through the FTA, WEST VIRGINIA firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

- Two of the leading American export prospects to Canada in 1988, according to the U.S. Foreign Commercial Service in that country, are among WEST VIRGINIA's leading exports. Total 1986 exports to Canada of these products--motor vehicle components and aircraft engines, engine parts, and other aircraft parts--topped $29 million.

  - WEST VIRGINIA aircraft engine and parts producers stand to gain from the staged elimination of the Canadian restriction on the importation of used American aircraft.

  - WEST VIRGINIA's auto sector will benefit from the FTA because it curbs Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.

  - After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.

  - The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products. The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

- Investment by Canadian companies in WEST VIRGINIA is $2.3 billion. Employment generated by Canadian investments is more than 15,000.

  - The FTA encourages additional WEST VIRGINIA investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both WEST VIRGINIA and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

- WEST VIRGINIA conducts millions of dollars worth of services trade with Canada each year. Over 152,000 employees work in the service, finance, insurance and real estate fields.
  - The FTA facilitates the entry of certain WEST VIRGINIA business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise without the customs delays that now exist.
  - The FTA enhances service trade opportunities for WEST VIRGINIA businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.
  - The FTA covers dozens of services in the agriculture and forestry, mining, construction, distributive trade, insurance and real estate, and commercial service sectors.
  - WEST VIRGINIA firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.
  - Future licensing and certification requirements for WEST VIRGINIA residents providing professional services (such as accountants and engineers) will be based primarily on competence and ability--not citizenship.

STATE STATISTICAL PROFILE: WEST VIRGINIA

Population (July 1, 1987)	1,897,000
Area	45,308 square miles 117,348 square kilometers

State Personal Income ($ millions, 1986)

Total:	$20,289

Nonagricultural Employees- Total and By Industry Groups (in 000s, October 1987)

Total:	609,200
Selected Industry Groups:	
Mining	36,900
Construction	25,900
Manufacturing	87,100
Transportation and Public Utilities	36,300
Wholesale Trade and Retail Trade	142,200
Finance, Insurance and Real Estate	24,400
Other Services	127,800
Government	128,600

Manufacturing Sector Employment- Total and Major Groups (1985)

Total:	88,200
Chemicals and Allied Industries	15,900
Primary Metal Industries	15,300
Stone, Clay and Glass Products	9,900
Fabricated Metal Products	6,100
Printing and Publishing	4,700

Service Sector Employment- Total and Major Groups (1985)*

Total:	125,700
Health Services	41,700
Banking	9,700
Membership Organizations	9,500
Business Services	8,900
Hotels and Other Lodging Places	7,000

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in WEST VIRGINIA

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$5,688
Canada	2,310

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	195
Canada	40

Major Commodity Trade With Canada

Exports to Canada ($ 000's, 1986): $256,136

Leading WEST VIRGINIA Exports to Canada:

Coal	$69,907
Rubber and Plastic Products	33,518
Chemicals (Inorganic and Organic)	32,139
Other Chemical Products	24,211
Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	23,922
Aluminum, Including Alloys	13,147
Aircraft Engines, Engine Parts, and Other Aircraft Parts	5,163
Medical, Opthalmic and Ortho. Supplies	4,767
Other Inedible End Products	3,291
Lumber	2,789

Imports from Canada ($ 000's, 1986): $173,695

Leading WEST VIRGINIA Imports from Canada:

Aluminum (Including Alloys)	$32,602
Nickel and Alloys	25,749
Aircraft Engines, Engine Parts and Other Aircraft Parts	20,664
Softwood Lumber	17,673
Newsprint Paper	11,260
Zinc, Including Alloys	8,676
Organic Chemicals	5,757
Synthetic Rubber and Plastics Products	4,934
Other Chemical Products	4,[illegible]80
Motor Vehicle Engines, Engine Parts, and Other Motor Vehicle Parts	4,576

Sources: Statistics Canada, U.S. Department of Commerce and U.S. Department of Labor.

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT FOR WISCONSIN

Prepared by

The Office of Canada
International Trade Administration
U.S. Department of Commerce (Room 3033)
Washington, D.C. 20230
(202) 377-3101

March 7, 1988

The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE WISCONSIN-CANADA TRADING RELATIONSHIP

In 1986, Canada and WISCONSIN traded $2.8 billion worth of commodities. The United States as a whole traditionally runs a goods trade deficit with Canada. WISCONSIN, however, exports 11% more to Canada than it imports from that country.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other.

The opportunities for WISCONSIN arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, WISCONSIN consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. WISCONSIN manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- WISCONSIN exported $1.5 billion worth of commodities to Canada in 1986.
    - Major exports included motor vehicle engines and parts; new wheel tractors; miscellaneous equipment and tools; auxiliary electrical equipment for engines; excavating machinery; tractor engines and parts; and marine engines and parts.
- WISCONSIN imported $1.3 billion worth of commodities from Canada in 1986.
    - Major imports included wood pulp and similar pulp; passenger automobiles and chassis; motor vehicle engines and parts; newsprint paper; softwood lumber; rubber and plastic products; and crude petroleum.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
    - On a national per capita basis, WISCONSIN's 4.8 million residents could be expected to account for $502 million of this trade. As a border state with Canada, however, WISCONSIN's combined imports from and exports to Canada are probably far higher.
    - Over 26,000 WISCONSIN service establishments recorded $7 billion in revenues in 1982.

- Major service industry employers include health services, business services, and insurance carriers.

- In 1986, 153,800 Canadian tourists spent $13 million in WISCONSIN.

o Total sales in WISCONSIN's manufacturing sector reached nearly $62 billion in 1984. The state is among the nation's leaders in the manufacture of such products as specialized machinery, leather tanning, the production of aluminum utensils, iron and steel forgings, motorcycles, cranes, shovels, industrial controls, small gasoline engines, lawn mowers, snowmobile engines, outboard motors, draglines, and wooden windows.

- The value of WISCONSIN's manufacturers' shipments dependent on exports totalled $5.2 billion (1983).

- Approximately 51,000 WISCONSIN jobs are maintained by export-related manufacturing (1983).

- Close to 10% of WISCONSIN's manufacturers' shipments are export-related (1983).

IMPACT OF THE FREE TRADE AGREEMENT

o In 1986, WISCONSIN's exported over $275 million worth of motor vehicle components to Canada. The U.S. Foreign Commercial Service ranks these goods among the top American export prospects to Canada during 1988. Over 33,000 WISCONSIN residents are employed in the manufacture of transportation equipment. The motor vehicle and motor vehicle parts manufacturer, A.O. Smith, is among the several Fortune 500 firms based in the state.

- WISCONSIN motor vehicle component producers stand to profit from the staged elimination of the Canadian restriction on the importation of used American motor vehicles.

- WISCONSIN's auto sector also will benefit from the FTA because it curbs certain Canadian performance requirements that distort trade and investment. In the FTA, Canada agrees to limit to a specified list the companies that are eligible for Auto Pact privileges in Canada. This prevents Canada from encouraging new investment in Canada by non-Pact manufacturers by offering the right to import duty free conditioned on Canadian production requirements.

- After 1998, the FTA provides an alternative to the Auto Pact, permitting U.S. manufacturers that choose not to meet Canada's performance requirements a way to export U.S. automotive products to Canada duty free. The FTA also freezes and sets timetables for the elimination of all other duty waivers linked to the production or exportation of Canadian automotive products.

- The FTA rule of origin, replacing the less stringent Auto Pact rule of origin, requires that imports from third countries undergo a designated change in tariff classification under the harmonized system nomenclature and that U.S. and Canadian materials and processing account for 50% or more of manufacturing costs for certain assembled products.

- The elimination of the Canadian duty remission and drawback programs, coupled with the new FTA rule of origin and the phaseout of tariffs, will enhance the competitive ability of North American motor vehicle and motor vehicle parts producers.

o With the expansion of government procurement opportunities through the FTA, WISCONSIN firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.

o One of WISCONSIN's major exports to Canada is paper and paperboard. In 1986, the state sold over $35 million worth of these products to Canada. Over 41,000 WISCONSIN residents are employed in the industry which manufactures paper and allied products.

- The Free Trade Agreement enhances foreign sales opportunities for WISCONSIN firms like Consolidated Papers and Fort Howard Paper through the staged reduction of tariffs on paper and paper products.

- The FTA maintains the duty free status of those products which currently enter Canada duty free, such as newsprint in rolls and wallpaper base. The remaining duties on all other paper, paperboard and related products--which range up to 17.5%--will be phased out by January 1, 1993.

o WISCONSIN produces numerous types of machinery, including new wheel tractors, tractor engines and parts, and various excavating machinery. Total sales to Canada of these goods topped $182 million in 1986. Over 90,000 WISCONSIN residents work in the industry that manufactures farm equipment and other machinery. Several large industrial and farm equipment manufacturers are based in WISCONSIN, including Rexnord, Allis-Chalmers, Briggs and Stratton and Harnischfeger.

  - Through the FTA, the 9.2% Canadian tariff on certain tractors will be phased out by January 1, 1998. Duties on other industrial and farm equipment will also be eliminated no later than this date.

- Five percent of WISCONSIN's workforce is employed in the agricultural sector. Gross farm income topped $5.7 billion in 1985. During 1986, WISCONSIN exported nearly $30 million worth of food, feed and beverages to Canada. Wisconsin Dairies Cooperative and Universal Foods--both headquartered in the state--are ranked among the Fortune 500.

  - The export opportunities for WISCONSIN farmers and food processors will expand through the reduction and elimination of various Canadian tariff and nontariff barriers. Canadian duties on agricultural products will be phased out by January 1, 1998. Canadian import quotas for poultry, poultry products and eggs will be increased. WISCONSIN packaged meat sellers will soon be exempt from Canadian meat import restrictions (subject to certain conditions).

- Several of WISCONSIN's manufactured products are among the top export prospects to Canada in 1988. The U.S. Foreign Commercial Service reports that computer and peripherals, telecommunications equipment, electronic components, and industrial controls are among the leading twenty export commodities to Canada during 1988. Sales to Canada of computers, telecommunications, electronic and electric, industrial control and related products topped $100 million in 1986. Among WISCONSIN's largest firms is Milwaukee-based Johnson Controls, which produces many electronics goods. Over 145,000 WISCONSIN workers are employed in the industries which produce many of these products.

  - The 3.9% Canadian duty on computers will end on January 1, 1989. Duties on various electric, electronic and telecommunications devices will be completely phased out no later than January 1, 1998. The FTA provisions on enhanced telecommunications and computer services enrs, including insurance agency, construction, metal mining, hotel reservation, credit bureau, real estate, oil and gas field, tourism and management services.

- In 1986, WISCONSIN imported $29 million worth of Canadian crude petroleum.

  - The Free Trade Agreement provides for free bilateral energy trade, ensuring WISCONSIN nondiscriminatory access to energy supplies. The FTA's energy provisions guarantee that Canada will not restrict exports, impose export taxes or establish export price requirements, subject to very limited national security and short supply exceptions.

- Investment by Canadian companies in WISCONSIN is $1.1 billion. Employment generated by Canadian investments is approximately 16,000.

  - The FTA encourages additional WISCONSIN investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both WISCONSIN and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

- WISCONSIN conducts millions of dollars worth of services trade with Canada each year. Over 508,000 employees work in the service, finance, insurance and real estate fields.

  - The FTA facilitates the entry of certain WISCONSIN business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise and after-sales service without the customs delays that now exist.

  - The FTA enhances service trade opportunities for WISCONSIN businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

  - The FTA covers a wide range of service sectors, including insurance agency, construction, metal mining, hotel reservation, credit bureau, real estate, oil and gas field, tourism and management services.

  - WISCONSIN firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian services regulations.

  - Future licensing and certification requirements for WISCONSIN residents providing professional services such as accountants and engineers will be based primarily on competence and ability--not citizenship.

STATE STATISTICAL PROFILE: WISCONSIN

Population (July 1, 1987)	4,807,000
Area	56,153 square miles 145,436 square kilometers

State Personal Income (in millions, 1986)

Total:	$66,549

Nonfarm Employees- Total and Selected Industry Groups (1985)

Total:	1,624,800
Selected Industry Groups:	
Agricultural Services, Forestry and Fish	6,100
Mining	1,300
Contract Construction	60,400
Manufacturing	497,800
Transportation and Public Utilities	84,300
Wholesale Trade	99,700
Retail Trade	347,500
Finance, Insurance and Real Estate	105,200
Other Services	403,400

Manufacturing Sector Employment- Total and Major Groups (1985)

Total:	497,800
Electrical Machinery	90,900
Food and Kindred Products	50,000
Fabricated Metal Products	47,600
Electrical & Electronic Prod.	44,600
Paper and Allied Products	41,500

Service Sector Employment- Total and Major Groups (1985)*

Total:	508,500
Health Services	151,200
Business Services	55,800
Membership Organizations	38,700
Insurance Carriers	32,000
Banking	27,600

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in WISCONSIN

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):	
All countries	$3,214
Canada	1,087

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)	
All countries	345
Canada	62

Major Commodity Trade With Canada

Exports to Canada ($ 000's, 1986): $1,465,794**

Leading WISCONSIN Exports to Canada:	
Motor Vehicle Engines, Engine Parts and Other Motor Vehicle Parts	$275,500
New Wheel Tractors	99,523
Miscellaneous Equipment and Tools	87,161
Auxiliary Electrical Equipment for Engines	62,789
Excavating Machinery	47,317
Tractor Engines and Tractor Parts	35,513
Marine Engines and Parts	35,408
Paper and Paperboard	35,005
Iron Ores and Concentrates	28,172
Inedible End Products	25,379

Imports from Canada ($ 000's, 1986): $1,338,030

Leading WISCONSIN Imports from Canada:	
Wood Pulp and Similar Pulp	$277,745
Passenger Autos and Chassis	244,283
Motor Vehicle Engines, Engine Parts and Other Motor Vehicle Parts	223,598
Newsprint Paper	82,782
Softwood Lumber	53,904
Rubber and Plastic Products	31,545
Crude Petroleum	28,967
Paper for Printing	20,384
Fresh, Chilled and Frozen Meat	17,838
Various Chemical Products	14,923

** It is likely that exports from the State of WISCONSIN to Canada are underestimated. Approximately one out of every seven dollars worth of U.S. exports to Canada cannot be assigned to a state. Most of these exports are automotive products, which are among WISCONSIN's leading exports to Canada.

Sources: Statistics Canada, U.S. Department of Commerce, U.S. Department of Labor and the WISCONSIN Department of Development.

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

BENEFITS OF THE U.S.-CANADA FREE TRADE AGREEMENT
FOR WYOMING

Prepared by

The Office of Canada
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(202) 377-3101

March 7, 1988

The state data presented here are derived from aggregate national data. The information is accurate; however, the reader should be cautious of applying this data to microeconomic levels.

THE WYOMING-CANADA TRADING RELATIONSHIP

In 1986, Canada and WYOMING traded $60 million worth of commodities. While the United States as a whole maintains a trade deficit with Canada, WYOMING has proved its competitiveness in the Canadian market by exporting 53% more than it imports.

Trade liberalizing agreements, such as the European Free Trade Agreement, the Australia-New Zealand Closer Economic Relations Trade Agreement, and the European Economic Community have shown that reducing trade barriers among nations sharply increases their sales to each other. The opportunities for WYOMING arise through the United States-Canada Free Trade Agreement's phaseout of Canadian tariffs, on average the highest in the industrialized world, the elimination of various nontariff barriers, and generally improved access to the Canadian market.

Through the FTA, WYOMING consumers and manufacturers alike will benefit from reduced prices and a greater diversity of available products brought about by greater competition, rationalized production, and more efficient business operations. WYOMING manufacturers will not only experience gains in the Canadian market, but will be more competitive in third-country markets as well.

- WYOMING exported $36.3 million worth of commodities to Canada in 1986.
  - Major exports included inorganic chemicals; drilling machinery and drill bits; miscellaneous measuring equipment; iron and steel pipes and tubes; miscellaneous crude non-metallic minerals; excavating machinery and mining, oil and gas machinery.
- WYOMING imported $23.7 million worth of commodities from Canada in 1986.
  - Major imports included drilling, excavating, and mining machinery; fabricated wood materials; fertilizers and fertilizer material; organic and other inorganic materials; petroleum and coal products; and miscellaneous non-metal mineral basic products.
- In 1986, United States-Canada trade in services exceeded $25.4 billion.
  - On a national per capita basis, WYOMING's half-million residents would be expected to account for $53.4 million of this trade.
  - Over 4,000 WYOMING service establishments recorded $988 million in revenues in 1982.

  - Major service industry employers include health services, hotels and other lodging places, and business services.
  - In 1986, 66,000 Canadian tourists spent $4 million in WYOMING.

- Approximately 400 WYOMING jobs are maintained by manufacturing related to exports to other countries.
  - Export-related manufacturers' shipments totalled $100 million in 1983.
  - Over 6% of WYOMING's manufacturers' shipments are export-related (1983).

IMPACT OF THE FREE TRADE AGREEMENT

- Three of WYOMING's leading exports to Canada include drilling machinery; compressors, blowers and vacuum pumps; and other excavating machinery. Together, these products account for $6.4 million of the state's exports to Canada. Over 1,100 persons are employed in WYOMING's machinery manufacturing industries.
- With the expansion of government procurement opportunities through the FTA, WYOMING firms will be eligible to compete for an additional $500 million in Canadian federal public sector purchases.
  - The Free Trade Agreement will allow WYOMING to increase its exports of these products by the phasing out of high tariffs that now restrict the entry of such goods into Canada.
- One of WYOMING's leading exports to Canada is mining, oil and gas machinery ($770,000 in 1986). Indeed, over 13,000 are employed in the state in oil and gas extraction.
- One of WYOMING's leading imports from Canada is fertilizer and fertilizer material. In 1986, the state imported $2.7 million worth of this commodity.
  - Through the FTA, products such as fertilizer which currently enter the U.S. without duty are assured of the same tariff-free status in the years ahead. These provisions provide additional security to farmers and others in WYOMING who depend on fertilizers to grow their products.

  - The FTA assures market access for Canadian energy products exported to the U.S. Hence, it also contributes to continued demand for mining, oil and gas machinery from American suppliers.

- One of WYOMING's major exports to Canada is that of live animals ($660,000 in 1986).
  - For those WYOMING ranchers who raise cattle or sheep, the FTA enhances opportunities to earn export income from Canada. Through the Agreement, Canada exempts the U.S. from its meat import laws (subject to certain conditions).

- Investment by Canadian companies in WYOMING is $950 million. Employment generated by Canadian investments is estimated to be 1,100.
  - The FTA encourages additional WYOMING investment in Canada by significantly liberalizing the investment climate. Further, the FTA encourages investment in both WYOMING and Canada by institutionalizing investor protections and by assuring that new discriminatory barriers to each other's investments will not be erected.

- The chemical industry in WYOMING maintains about 400 jobs in WYOMING. In 1986, WYOMING exported close to $11 million of inorganic chemicals to Canada.
  - The FTA supports WYOMING's exports of such products through the phaseout of Canadian duties. The U.S. Foreign Commercial Service in Canada rates industrial inorganic chemicals as one of the 20 best export prospects for U.S. firms.

- WYOMING conducts millions of dollars worth of services trade with Canada each year. Over 38,000 employees work in the service, finance, insurance and real estate fields.
  - The FTA facilitates the entry of certain WYOMING business professionals traveling to Canada through the implementation of simpler border crossing procedures. This will enable those individuals to provide their expertise without the customs delays that now exist.
  - The FTA enhances service trade opportunities for WYOMING businesses by providing that future Canadian laws and regulations affecting trade and investment by American service providers will be nondiscriminatory.

- The FTA covers dozens of services in the agriculture and forestry, mining, construction, distributive trade, insurance and real estate, and commercial service sectors.

- WYOMING firms will be assured the right of establishment of a commercial presence, the right to sell across the border, and greater transparency in Canadian regulations.

- Future licensing and certification requirements for WYOMING residents providing services such as accountants and engineers will be based primarily on competence and ability--not citizenship.

STATE STATISTICAL PROFILE: WYOMING

Population (July 1, 1987)	490,000
Area	97,809 square miles 253,326 square kilometers

Gross State Product (in millions, 1986)

Total:	$8,542
Private, Nonfarm:	6,908
Government:	1,443
Farm:	191

Nonfarm Employees- Total and Selected Industry Groups (1985)

Total:	137,600
Selected Industry Groups:	
Agricultural Services, Forestry and Fish	400
Mining	24,600
Contract Construction	9,800
Manufacturing	8,200
Transportation and Public Utilities	10,800
Wholesale Trade	7,400
Retail Trade	34,900
Finance, Insurance and Real Estate	7,700
Other Services	30,600

Manufacturing Sector Employment- Total and Major Groups (1985)

Total:	8,200
Printing and Publishing	1,500
Lumber and Wood Products	1,200
Machinery (Except Electrical)	1,100
Stone, Clay and Glass Products	1,100
Petroleum and Coal Products	900

Service Sector Employment- Total and Major Groups (1985)*

Total:	38,300
Health Services	6,600
Hotels and Other Lodging Places	5,500
Banking	3,300
Business Services	3,300
Membership Organizations	2,700

*Includes Finance, Insurance and Real Estate Industries

Foreign Investment in WYOMING

Gross Book Value of Property, Plant and Equipment of Affiliates ($ millions, 1985):

All countries	$2,444
Canada	950

Number of Affiliates of Foreign Countries with Property, Plant and Equipment (1985)

All countries	3,135
Canada	1,078

Major Commodity Trade With Canada

Exports to Canada ($ 000s, 1986):	$36,255

Leading WYOMING Exports to Canada:

Excavating and Mining Machinery	$10,984
Drilling Machinery and Drill Bits	4,103
Other Measuring Devices (Lab Equipment, etc.)	3,353
Pipes and Tubes, Iron and Steel	2,618
Misc. Crude Non Metallic Minerals	2,375
Misc. Excavating Machinery	1,924
Oil and Gas Mining Machinery	770
Live Animals	559
Electrical Generators and Motors	397
Compressors, Blowers and Vacuum Pumps	370

Imports from Canada ($ thousands, 1986):	$23,709

Leading WYOMING Imports from Canada:

Drilling, Excavating, and Mining Machinery	$3,196
Selected Fabricated Wood Materials	2,858
Fertilizers and Fertilizer Materials	2,716
Various Inorganic Chemicals	1,832
Petroleum and Coal Products	1,728
Misc. NonMetal Mineral Basic Prod.s	1,351
Softwood Lumber	1,284
Various Iron and Steel Alloys	867
Organic Chemicals	756
Motor Vehicle Engines and Parts, Motor Vehicle Parts	565

Sources: Statistics Canada, U.S. Department of Commerce, U.S. Department of Labor and WYOMING Department of Economic Planning and Development.